Answers to Test #2

A.  (1) False. No barriers to entry.
     (2) True. In this situation, apc > mpc and mpc > mps, so apc > mps
     (3) False. Wages will rise and employment fall (the union is a monopoly in the labor market)
     (4) True. The SRAS (and LRAS) curve shifts to the right.

B.  (1) multiple possible answers, but it seems like C would drop so AD would go down, and then it depends what you think would happen to I and G in the longer run (e.g., rebuild?)
     (2) SRAS and LRAS both shift to the right, Y increases; in the labor market, D shifts up/right, S shifts up/left, so real wages increase

C.  (1) P = 45, Q = 300
     (2) DWL = 750
     (3) P = 47.50, Q = 250
     (4) 8900; 6150

D.  (1) B; its PV is positive ($27.27) while A breaks even ($0 PV)
     (2) 12.5%

E.  (1) purchase $4000 worth of bonds from the public
     (2) 1/6
     (3) nothing (because the interest rate won’t change)

F.  (1) 3000; 2500; 400
     (2) 1/(1 – C1 – I1); 10
     (3) 3000; 5