

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) $1/(1 - C_1 - I_1)$; 10
(3) 3000; 5