

MBA 503 Economics Component ~ Potential questions for exam 1.

This exam will cover material from chapters 1-3 in the Nellis and Parker text, plus any additional class notes that we went over during the last 3 sessions. Five questions will be on the exam. These questions will be made up of questions similar to those below. Note: some questions here could be expanded upon or combined to form a longer question for the exam.

1. Explain the concept of "opportunity cost" as it pertains to consumption and production decisions with limited resources. Use your own words. Provide a consumer example and a firm example of opportunity cost to support your answer.
2. Explain the principle of diminishing marginal utility. Use an example and provide a graph to support your answer.
3. Explain the principle of increasing opportunity costs. Upon what assumption is this principle based? Use an example and provide a graph to support your answer.
4. Explain the principle of diminishing marginal returns. Use an example and provide a graph to support your answer.
5. In October of 1996, the minimum wage was raised from \$4.25 to \$4.75. Draw a graph illustrating the effects of this change on the market for unskilled labor in the U.S. Can you conclude that raising the minimum wage would be beneficial? Explain why or why not.
6. Explain why the price elasticity of demand changes along a constant-slope demand curve.
7. Explain *the principle of comparative advantage*, and what it implies for mutual gains from trade.
8. Carefully explain why demand curves are downward sloping. Hint: we discussed two "effects" of price changes that lead to the inverse relationship between price and quantity demanded.
9. Explain the concept of *price elasticity of demand*. What factors determine whether the demand for a particular good will be "elastic" or "inelastic"? Explain. How is the price elasticity of demand related to changes in firm revenue that result from price changes?
10. Carefully explain why cost curves tend to be U-shaped. Be sure to provide explanations for both long-run and short-run costs.
11. A perfectly competitive industry is taken over by a monopolist. How is the efficiency of the industry likely to change? Are consumers going to be better off or worse off? What will happen to the profitability of the industry? Explain using both words and graphs.
12. Consider a publishing company that represents a very popular author. When the author writes a new novel, the publishing company first releases the book in hard cover for around \$25.00. The paperback version of the book, which sells for around \$6.00, is not released for several months. The marginal cost of producing the hard cover book is only slightly higher than that of the paperback. Explain why the publishing company engages in this practice.
13. Compare and contrast the 4 basic market structures in terms of: efficiency, level of competition, conditions of entry, market power, and the profitability of individual firms. Also, give at least one example of a product sold in each type of industry.

14. Carefully explain the difference between “diminishing marginal returns”, and “decreasing returns to scale”. Use an example to illustrate your answer. Be sure to include the causes of each, and when each is likely to occur.

15. Draw two graphs. One illustrating a very inelastic demand curve, and the other showing a very elastic demand curve. What factors determine whether the demand for a particular good is elastic or inelastic? Explain. Provide an example of a type of good for which the demand might be very elastic, and one for which the demand might be very inelastic.

16. Draw two graphs. One illustrating a very inelastic supply curve, and the other showing a very elastic supply curve. What factors determine whether the supply of a particular good is elastic or inelastic? Explain. Provide an example of a type of good for which the supply might be very elastic, and one for which the supply might be very inelastic.

17. List 3 things that could cause an increase in the supply of a particular good. On a graph that shows both supply and demand, show the effect of an increase in supply on equilibrium price and quantity. Regarding the effect on price, explain why we see this change.

18. Construct an example illustrating the idea that changes in price serve as a signal to manufacturers influencing what goods and services are produced. Be sure to use a graph to support your answer.

19. In 1996 a Suffolk, VA manufacturer built the world’s first self-propelled peanut harvester. The advantages of the new machine are efficiency and harvest quality. The new machine also eliminates a problem with old harvesting methods: the traditional tractor ran over and crushed up to 10 per cent of the usable crop. The new machine does not do this. Carefully explain the changes you expect to see in the market for peanuts. What will happen in the market for peanut butter (which is produced with peanuts)? What will happen in the market for jelly (a complement for peanut butter)? Use words and graphs to explain all parts of your answer.

20. In 1996 a Suffolk, VA manufacturer built the world’s first self-propelled peanut harvester. The advantages of the new machine are efficiency and harvest quality. The new machine also eliminates a problem with old harvesting methods: the traditional tractor ran over and crushed up to 10 per cent of the usable crop. The new machine does not do this. At the same time, the USDA scientists announced that peanuts contain the same heart-healthy chemical believed responsible for the beneficial effects of red wine. Carefully explain the effects you might see in the peanut market and use a graph to support your explanation.

21. Explain how the relationship between price and average variable costs affects the decision of the firm whether or not to “shut down” in the short run.

22. Explain how the relationship between price and average total costs affects the decision of the firm whether or not to stay in a particular market in the long run.

23. What is “x-inefficiency”?