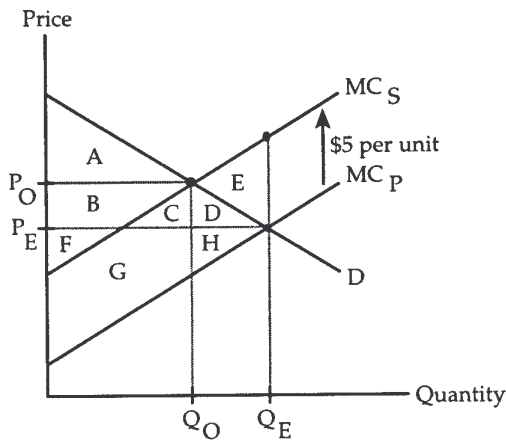


Homework Quiz: Monday, April 27

1. Consider a firm with constant (horizontal) marginal cost that behaves competitively. A horizontal merger lowers the firm's marginal cost and causes the firm to behave like a monopoly. How does the merger affect producer's surplus, consumers' surplus and social gain? Illustrate graphically and explain.

2. The following questions refer to the accompanying diagram, which shows the effects of a negative externality created by an industry's production. The equilibrium quantity in the absence of any attempt to internalize the externality is Q_E and the optimal quantity according to Pigovian analysis is Q_O .



- i. The external costs imposed by this externality is given by what area in the above diagram?
- ii. Suppose there is no attempt to internalize the externality. Pigovian analysis indicates that the externality creates a deadweight loss equal to what area?
- iii. According to a Pigovian analysis of this externality, when a tax of \$5 per unit is imposed on the firms in this industry, the external costs created by the firms' production will be equal to what area?
- iv. Suppose there are no transactions costs. Also suppose the externality is internalized when the damaged parties offer producers a bribe of \$5 per unit to reduce their production. Coasian analysis indicates that social gain in this situation will equal what area?

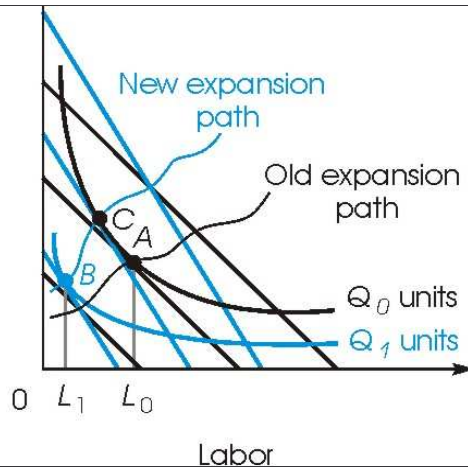
3. Use the following chart to answer the questions below.

	Non Excludable	Excludable
Non Rival	A	C
Rival	B	D

- i. An empty public park falls under square ____
- ii. A toll bridge not during rush hour falls under square ____
- iii. A toll bridge during rush hour falls under square ____
- iv. A fishery falls under square ____
- v. Cable television falls under square ____

4. Chapter 14, Problem Set #1

5. The figure shows the effects of a wage _____. The firm starts at point A and ultimately ends up at point B. Point C is an interim point that illustrates certain effects. The movement from A to C is the _____ effect while the movement from C to B is the _____ effect.



6. Chapter 16, Problem Set #4, 5, 6

7. Multiple Choice

- i. The short-run demand curve for labor for a firm in any type of market for its output coincides with
 - a. the upward sloping portion of the marginal revenue product curve.
 - b. the downward sloping portion of the marginal revenue product curve.
 - c. the downward sloping portion of the marginal product curve.
 - d. the marginal labor cost curve.

- ii. An increase in the price of labor will, in the short run, cause a competitive firm's
 - a. marginal cost to increase, the quantity it sells to decrease and therefore reduce the quantity demand of labor.
 - b. price of output to increase, leaving the demand for labor unchanged.
 - c. marginal revenue product of labor to decrease and therefore reduce demand for labor.
 - d. marginal revenue product of labor to increase and therefore increase demand for labor.

- iii. If labor and capital are complements in production, then an increase in the amount of capital will
 - a. reduce the firm's demand for labor.
 - b. raise the firm's marginal cost of production.
 - c. cause the scale effect to outweigh the substitution effect.
 - d. increase the labor's marginal product.

- iv. When will a wage increase cause a firm to produce more output in the long-run?
 - a. Always.
 - b. When labor and capital are complements in production.
 - c. When labor is a regressive factor.
 - d. Never.

v. To maximize its profits, a monopsonist will always hire the quantity of labor at which marginal revenue product of labor

- a. is downward sloping and equal to the market wage rate.
- b. is downward sloping and equal to its marginal labor cost.
- c. minus marginal labor cost is maximized.
- d. is maximized.

vi. The practice of a firm setting a price so low that all firms incur losses is called

- a. a tournament.
- b. predatory pricing.
- c. a buy-out strategy.
- d. a contestable market.

vii. The key defining feature of oligopoly, in addition to firms' market power, is

- a. collusion.
- b. free entry and exit.
- c. firms take rivals' actions into account.
- d. the Prisoner's Dilemma.