(Points)
(10) 1. (7.1.4) Define capital. Distinguish between physical and human capital.

(10) 2. (2.6.10) Identify, *ceteris paribus*, who you would expect to do more saving and investing: Someone with a high discount rate or someone with a low discount rate.

(10) 3. (3.1.4) Identify and explain the three reasons Adam Smith gives for the increased productivity from the division of labor.

(10) 4. (3.3.12, 16) Draw a market picture that represents an excess demand condition. Identify the exact size of the excess demand. Show graphically and explain how, under perfectly competitive conditions, the market price will respond to this excess demand condition. Identify the signal on which the entire market adjustment depends.

(10) 5. (3.4.11) Identify our two nice assumptions. Explain each, specifying the two elements of each.
6. (4.3.16, 5.1.15) On each graph identify the initial equilibrium price and quantity exchanged with $P_0$ and $Q_0$ respectively.

In the space below write out the equation economists use to represent the measure of Own Price Elasticity.

a. Identify three conditions that would contribute to the Own Price Elasticity of Demand for Good A being elastic.

b. Identify one product Supply shift variable and describe how that variable would have to change in order to shift a product Supply line up.

c. Assume that the cross price relationship between Goods A and B is $\varepsilon_x < 0$

Now suppose that the shift you described in part “b” actually occurred in the Good A market. Show the new equilibrium in the Good A market, and the effect of this change in the Good A market would have on the Good B market given the specified cross price elasticity, ceteris paribus. Identify any shifts and label the new equilibrium price and quantity exchanged in each market with $P_1$ and $Q_1$.

d. In the Good A market the supply/quantity supplied (circle one) changed.

7. (4.2.3, 7.3.9) When a worker considers asking for a raise, two things she should consider are the own price elasticity for the good she is producing and the elasticity of input substitution for her own kind of labor. Explain in the terms of an economist why this is so.

9. (6.1.11, 12) Given the following information on the cost structure facing a typical firm:

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$\begin{array}{c}
FIRM \\
p \\
AC \\
Q \\
MARTket \\
Q \\
\end{array}$

a) Complete the cost structure information for the typical firm, and on the market graph draw a market equilibrium that results in a market price ($P_0$) which causes the typical firm to make a positive profit.

b) Draw in and label the demand line ($D_f$) for the Typical Firm (given (a)).

c) Identify the quantity the Typical Firm will produce with a $Q_0$ (given (b)).

d) Given all of the above, show the size of the positive profit made by the typical firm when it produces quantity $Q_0$ at price $P_0$.

Do this with a rectangle that looks like this: [rectangle]

e) Show what the market picture will look like after all adjustments are complete, given our nice assumptions.

10. (9.3.13) On the graph below show the case of a positive externality. Identify the MSC and MSB lines, the exact size of the externality, the optimal level of private activity $L_p$, the optimal level of social activity $L_s$, and the exact size of a subsidy that would solve the externality problem.

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$\begin{array}{c}
$ \\
MPC \\
MPB \\
0 \\
Level of Activity \\
Externality Case \\
\end{array}$

Explain why it is very difficult for the government to solve positive or negative externality problems?
(10) 11. (3.4.4) Identify the two basic kinds of markets. Distinguish these two kinds of markets by describing and contrasting how the market players participate in each.

I understand the general standards of academic integrity established by Syracuse University and those specific standards laid out in Professor Evensky’s syllabus. My work on this exam meets those high standards of academic integrity.

Signed: ________________________________