

ECON 306-007
Final Examination
Instructor: Eli Dourado
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Name: _____

Instructions: All questions are weighted equally. Answer them perfectly.

1. We all know that wealth can be created even though the amount of matter has not changed (for instance, through exchange). Can wealth be *destroyed* if the amount of matter has not changed? Explain.
2. In a free market, no one person or group is in charge of production. What determines who produces how much of what?
3. Suppose that you are a member of a group that is disliked by the rest of society. Are you better or worse off under rent control? Why?
4. The government subsidizes home ownership through tax deductions. How is this likely to affect the difference in home ownership rates between the rich and the poor?

9. If markets work better than top-down control, why do we observe firms in the real world?

10. What are the three justifications for specialization?

11. What is the difference between fixed and variable costs?

12. Are tenured professors a fixed cost or a variable cost for a university? Why?

13. You are the CEO of a monopolist facing demand of $Q=30-P/2$. Your marginal cost is Q . What quantity should you produce? At what price should you sell?

14. True/False/Depends, and explain: The supply curve of a monopolist is its marginal cost curve.

15. What is a “natural monopoly?”

16. If you are a hairdresser, why might you favor government regulations on hairdressers?

17. Some people argue that the government can regulate monopolies by setting prices at the intersection of marginal cost and demand. What is wrong with this argument?

22. Why is the prisoner's dilemma a dilemma?

23. Find all pure strategy Nash equilibria in the following game:

		Player 2	
		Left	Right
Player 1	Up	(3,4)	(7,8)
	Down	(5,6)	(1,2)

24. What is a focal point, and how can it help solve games that involve coordination?

25. What is the Coase Theorem?