

AP ECON 3240C Midterm Exam 2 Version 1

Department of Economics
Fall 2019

York University
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Note: There are two versions in this exam. Each student must do her/his own version. A zero mark will be given if a student were to do a wrong version,

Version	Students' last name starting from
Version 1	A to L
Version 2	M to Z

Please read the instructions below before you begin writing.

1. It is a 24 hour-take-home exam.
2. The exam questions will be posted on moodle at 12:00 noon Wednesday November 13, 2019.
3. The students should submit the completely answered notes to the lecture classroom, **VH C, between 5:00pm -5:30pm, Thursday November 14, 2019.**
4. Students must submit their own exam answer books with ID. **No third party submission permitted.**
5. No lecture will be delivered on November 14.
6. **Students must use YU exam booklet(s) for answering questions first. NO other form of answers will be accepted.** If students need additional booklets, they can get ones from me or from markets. **No clip or stapled paper pack accepted.** The additional one(s) must be the notebook format (YU exam booklet format).

Questions: There are 10 questions. Each question is equally weighted. Answer all.

1. Explain the concepts of Implicit contracts. Why do employers prefer to have implicit contracts? What is the impact of implicit contracts on the unemployment rate?
2. Summarize the Canadian economic situation in the early 1980s. In particular, explain why unemployment soared at that time.
3. What are causes of unemployment? Explain why there is no zero unemployment rate in the economy.

4. Assume a monopsony model with the following information.

L	W	MP
1	10	25.0
2	15	22.5
3	20	20.0
4	25	17.5
5	30	15.0
6	35	12.5
7	40	10.0
8	45	7.5
9	50	5.0

Assuming the market price of the output is \$3.00 per unit, answer the followings.

- Draw the firm's labour supply and marginal resource cost curves. Are the curves the same or different? If they are different, which one is higher?
 - On the same graph, plot the labour demand data. What are the equilibrium wage rate and level of employment?
 - If the government imposes a minimum wage of \$30, determine the employment level.
 - If this is a market of perfect competition, compare the wage and employment for the monopsony with the market of the perfect competition. By how much does the monopsonist reduce wages below the competitive wage? By how much does the monopsonist reduce employment below the competitive level?
5. Evaluate the following statements if it is true, false, or uncertain.
- Labor union increases efficiency and wage rate.
 - Minimum wage policy increases efficiency and employment.
6. Evaluate the following statements if it is true, false, or uncertain.
- An increase in the labor productivity will increase labor demand.
 - When the price of capital falls, demand for labor will decline.
 - When the price of capital falls, demand for labor will increase.

7. Suppose the productivity of capital and labour are as shown in the accompanying table. The output of these factors sells in a perfectly competitive market for \$1 per unit. Both capital and labor are hired under perfectly competitive conditions at \$15 and \$10, respectively.

K	MPK	L	MPL
0		0	
1	30	1	21
2	27	2	18
3	24	3	15
4	21	4	12
5	18	5	9
6	15	6	6
7	12	7	3
8	9	8	1

- What is the least-cost combination of labour and capital the firm should employ in producing 96 units of output? Explain.
 - What is the profit-maximizing combination of labor and capital the firm should use? Explain. What is the resulting level of output? What is the economic profit?
8. Assume a market of perfect competition that is faced with the demand schedule and cost data shown below.

Q	P	TC
1	120	50
2	110	75
3	100	100
4	90	128
5	80	165
6	70	205
7	60	255
8	50	315

- Draw a graph of market demand and supply.
- Determine the profit-maximizing price and profit-maximizing output for this market.
- Verify your answer graphically.

9. Continue from the previous question with the same demand and cost information.

Q	P	TC
1	120	50
2	110	75
3	100	100
4	90	128
5	80	165
6	70	205
7	60	255
8	50	315

Assume now a monopoly firm and answer the followings.

- Calculate the total-revenue, the marginal-revenue, and the marginal cost.
 - Determine the profit-maximizing price and profit-maximizing output for this monopolist.
 - What is the monopolist's profit? Verify your answer graphically.
 - Graphically show the area of deadweight loss.
10. Evaluate the following statements if it is true, false or uncertain.
- A monopoly firm charges the highest price since she has an exclusive power to control market price.
 - A Monopsony firm pays more and hire more than a firm under perfect competition.
 - Monopoly firm is efficient.

The End of the Exam