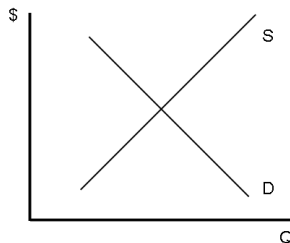


Name and Student ID: _____

Due 16 Sep 2014. Practice your answers elsewhere. Turn in these pages.

1. (4 points) Start with aggregated supply and demand curves, such as these:



Show how (one or both) curves shift (in or out) and the new equilibrium.

- (a) (2 points) The government decides to subsidize university education. Draw S-D curves for education and labor (define what's demand and what's supply) before and after the subsidy.
- (b) (2 points) Markets for fiction books versus one economics textbook. Draw two different sets of S-D curves. Show *and discuss* relative elasticities.

2. (4 points) A monopoly faces a direct demand curve of $Q = 2 - p$ and has a cost function of $c(Q) = \frac{1}{2}Q^2$.

Write down the business' profit function ($TR - TC$) and find its profit maximizing quantity, price and profits.

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Now draw supply, demand and marginal revenue (i.e., "relevant demand") curves. Draw a dotted line on this same graph showing the firm's profit curve. (Hint, find intercepts on the horizontal axis for ALL curves, then their intersections).

