

12 Multiple Choice Questions (worth 3 points each...36 points total)

The following inverse-price elasticity formula may prove helpful: $MR = P(1 + \frac{1}{E_p})$

1. Who invented the first cigarette making machine?
 - a. James Bonsack
 - b. Bernard Ebbers
 - c. James B. Duke
 - d. Terry Sanford
 - e. Donald Turner

2. What is the Sarbanes-Oxley Act?
 - a. The law that banned drilling in the Artic refuge
 - b. The law that deregulated the California electricity market
 - c. The law that made the filing of misleading financial statements illegal
 - d. The law that required stricter vehicle emissions in California
 - e. The law that banned cigarette sales to minors (under 18 years old)

3. When Colonel Muamer Qadaffi's government took power in September 1969 what did they immediately do?
 - a. Joined OPEC.
 - b. Assassinated an Exxon petroleum engineer.
 - c. Renegotiated the terms of Libyan oil contracts.
 - d. Began an off-shore oil drilling program.
 - e. Founded a national university dedicated to petroleum engineering.

4. What was the 2004 Global Analyst Research Settlement?
 - a. Required the disclosure of stock trades by company executives
 - b. Required that analysts have a 4-year college/university degree before being hired
 - c. Barred analysts from holding stocks
 - d. Required that all fees from stock trades be disclosed
 - e. Implemented structure to separate investment banking from stock research

5. In which country did the U.S. government use a CIA-backed coup to install a new leader into power in August 1953?
 - a. Kuwait
 - b. Iran
 - c. Saudi Arabia
 - d. Libya
 - e. Iraq

6. True/False: The United States is a net importer of oil.
 - a. True
 - b. False

7. Why did British-American Tobacco (BAT) sell Brown and Williamson to R.J.Reynolds?
- Employees at Brown and Williamson were demanding pay increases
 - Brown and Williamson had an accounting scandal
 - The U.S. dollar was depreciating against the British pound
 - Brown and Williamson needed to upgrade its manufacturing plant
 - BAT wanted to avoid U.S. legal liabilities
8. What problems has Tyco recently encountered?
- Restated earnings because they were previously counting assets as liabilities
 - Questionable accounting practices after acquiring another company
 - Their outside auditor was also collecting consulting fees
 - Questionable partnership deals
 - \$100 million in deposits at a Grand Cayman bank did not exist
9. Which country allowed independent oil companies to account for half of its oil output?
- Iran
 - Iraq
 - Kuwait
 - Libya
 - Saudi Arabia
10. What is the definition of deadweight loss?
- Producer surplus – consumer surplus
 - Consumer surplus – producer surplus
 - Consumer surplus + producer surplus
 - (Price paid by consumers – price received by the sellers)*output
 - The reduction in total surplus that results from producing an inefficient level of output
11. The average price of a gallon of gas passed \$2 this week. These higher prices are attributed to:
- Cold weather in the U.S.
 - Oil disruptions in Iraq
 - Increase in oil demand by China
 - An OPEC oil embargo
 - Oil workers strike in Nigeria
12. US Air estimates the marginal cost to fly a passenger from Pitt County to Charlotte is \$50. The price elasticity of demand is -4.0. What is the profit maximizing price that US Air should charge?
- \$66.67
 - \$80
 - \$88.83
 - \$100
 - \$200

Extra Credit (3 points) To be eligible to answer the extra credit question your cell phone must not have rung during class or this test and you must have taken this test in class at the normally scheduled time on March 22nd)

13. On March 15th, 2005 what did the jury decide in the accounting fraud trial of former WorldCom CEO Bernard Ebbers?
- Guilty on all nine counts
 - Innocent on all nine counts

Discussion Questions (64 points total)

1. (14 points) There are ten identical firms, each i^{th} firm has a short-run marginal cost curve of:

- $SMC = 2 + 2Q_i$

And the demand curve for this industry is:

- $P = 19.5 - 0.5Q$

a. Find the supply curve for this industry.

b. Find the equilibrium price in this industry.

c. Find the equilibrium quantity in this industry.

d. Find the quantity that the individual firm will supply (firms can supply partial quantities).

e. On the graph below, show the consumer surplus and producer surplus in this industry.

f. How much is the consumer surplus in this industry?

g. How much is the producer surplus in this industry?

2. Complete the following table for the short-run cost curves for the production function: $Q = 4KL$ where in the short-run K is fixed at 2 units, with the rental price of capital = \$4 and the wage rate = \$2. (8 points)

Workers	Output	TC	VC	FC	ATC	AVC	AFC	MC
0					--	--	--	--
1								
2								

3. (15 points) A monopolist faces the following demand curve: $Q^d = 25 - \frac{1}{2}P$ and $MC = 10 + Q$
- a. Find the profit maximizing quantity.

b. Find the profit maximizing price.

c. Find the consumer surplus & lightly shade this area on a graph below.

d. In the above graph, pin stripe the producer surplus area.

e. In the above graph, heavily shade in the deadweight loss area.

4. (12 points) Grady White Boats has a monopoly on making boats. Grady owns two boat plants, one in Greenville and one in Jacksonville. The marginal cost of each plant are:

- $MC_G = 10 + 10Q_G$

- $MC_J = 40 + 2Q_J$

With the subscript (G or J) denoting Greenville or Jacksonville. Demand for Grady-White boats is:

- $P = 125 - \frac{1}{3}Q$

a. Find the profit maximizing number of boats that Grady-White should produce.

b. Find the profit maximizing price of a Grady-White boat.

c. How many boats should be produced in Greenville? How many in Jacksonville?

5. In 1998 the major cigarette companies reached a “global” out-of-court settlement with the 50 states that were suing them (15 points).
- a) What benefit(s) did the cigarette companies receive from the states?

 - b) What benefit(s) did the states receive from the cigarette companies?

 - c) How was cigarette marketing affected by the global settlement?

 - d) How have cigarette prices been affected by the global settlement?

 - e) How has the global settlement affected competition in the cigarette industry? Support your claim with some recent evidence/facts.

Test #2 – Answer Key

1. A
2. C
3. C
4. E
5. B
6. A
7. E
8. B
9. D
10. E
11. C
12. A
13. A