

exam2_solutions

The unofficial answers:

1 - 5 E E A E A
6 - 10 B E C A E
11 - 15 E B C A B
16 - 20 A C D D A
21 - 25 D D E A D
26 - 28 B D D

Short Answer #1

Here's what I was hoping for. The drug bust decreases the supply of heroin and raises its price. Next, we wonder what happens to total expenditures on heroin. We would expect heroin to be inelastically demanded (few substitutes). Thus, total expenditures on heroin would increase, resulting in more property crime. This happens out there in the real world.

Short Answer #2

It is inefficient, there is a DWL, as there is with any binding price ceiling. At the price of zero, there is an excess quantity demanded (a long list of people waiting for transplants). If the restriction were removed, the excess quantity demanded would be eliminated and the amount of time people wait in line would be reduced.

Short Answer #3

Both the D curve and the MR curve are horizontal at a price of \$3.

Extra Credit #1

We'll talk about this in class. I hope I led you into saying something like you don't like the idea that only rich people could afford organs...

Extra Credit #2

Yep. As $D = MR = \text{market price}$, by setting $P = MC$, you are also setting $MR = MC$.