

Economics 308: Intermediate Microeconomics
Department of Economics, Finance and Legal Studies
University of Alabama
Spring, 2020

Midterm I

The exam is worth 100 points. Each question (six questions on six pages) is of equal value. There will be no communication with the exam proctors; if you believe a question contains an error or ambiguity, say so on your written examination, make an assumption to correct the alleged error or to resolve the ambiguity, and answer the question as well as you can.

1. Consider a two good economy (x and y). If we observe a consumer choosing the bundle (x_1, y_1) when (x_2, y_2) is available, are we justified in concluding that (x_1, y_1) is preferred to (x_2, y_2) for this consumer? Explain briefly (hint: the use of a graph may be helpful).
2. Consider a two good economy (electricity and y). Suppose that an electric company charges consumers 15 cents per kilowatt hour for electricity for the first 1,000 units used in a month, but 10 cents for each extra kilowatt hour after that. Draw the budget constraint for a consumer facing this price schedule and briefly discuss why many individuals may *not* choose to consume exactly 1,000 kilowatt hours (be sure to label all axes, curves and intercepts). Explain briefly.
3. Consider a two good economy (movie theatre tickets and popcorn). Suppose a decrease in the price of movie theatre tickets does not cause a change in Zach's consumption of popcorn. How can this be? Explain briefly using a graph and the concepts of income and substitution effects?
4. Consider a two good economy (x and y). Thinking in terms of elasticities, what will be the change in the quantity demanded of an inferior (but not Giffen) good x if:
 - a. The price of x rises?
 - b. Income rises?
 - c. The price of a substitute (y) rises?
5. If a linear demand curve shifts parallel to the right, what happens to the (own price) elasticity of demand at a given quantity (use a graph)?
6. The amount of food consumed by an individual at an "all-you-can-eat" restaurant can be considered a case of adverse selection. Discuss the meaning of this statement, and comment on how private parties or the government might intervene to reduce the problem of adverse selection.