Format: The exam will likely consist of 20-25 multiple choice questions, with a second section containing short answer questions that may require some calculations. Students should bring a calculator to the exam. Students will be asked to turn their cell phones off during the exam.

The exam will cover any material covered during the first four lectures. Anticipated topics include, but are not limited to the following:

- Rational actor paradigm
- The eight guideposts to economic thinking
  - Incentives
  - Marginal thinking
  - Opportunity cost
- Voluntary transactions and wealth creation
- The government’s role in creating and destroying wealth
  - Creation
    - Protection of property rights and contracts
    - Provision of public goods
  - Destruction
    - Taxes
    - Subsidies
    - Price controls
- The one rule of business
- The one rule of economics
- Measuring costs
  - Fixed costs
    - The fixed-cost or sunk-cost fallacy
  - Variable costs
  - Economic versus accounting profits
  - Average cost and marginal cost
    - Average total cost, average fixed cost, and average variable costs
- Extent decisions and marginal thinking
  - Production decisions
    - Marginal revenue and marginal cost
  - Effort and incentive schemes
    - (to induce more effort from workers, we need to set up incentives properly so that the marginal benefit of effort exceeds the marginal cost).
- Law of demand
  - The three laws of demand
- Consumer surplus
  - Aggregate demand
    - When should you raise prices? When should you lower prices?
      Remember, economics is about marginal thinking
  - Elasticity of demand
    - Own price elasticity
    - Cross price elasticity
    - Income elasticity
    - Price elasticity and marginal revenue
    - Determinants of elasticity

Consider the following review type questions

Multiple choice

1. Which of the following is not an example of the government’s role in helping create wealth?
   a. Assessing property taxes
   b. Recording property transactions
   c. Providing federal courts to adjudicate contract disputes
   d. Assigning street addresses

2. In a transaction for a good valued at $100,000 by a buyer and $95,000 by a seller, what amount of tax would result in an unconsummated transaction?
   a. Any tax amount would result in an unconsummated transaction
   b. A tax of $1500
   c. A tax of $5500
   d. It depends on how much the parties are willing to pay (and accept) for the good.

3. A computer manufacturer shares its production capacity across two separate products, computers and printers. If the profitability of selling printers decreases, then the company will find that the
   a. cost of producing computers decreases.
   b. cost of producing computers increases.
   c. cost of producing computers is not affected.
   d. profitability of producing computers increases.

4. Mr. D's Barbeque of Pickwick, TN produces 10,000 dry-rubbed rib slabs per year. Annually Mr. D's fixed costs are $50,000. The average variable cost per slab is a constant $2. The average total cost per slab then is
   a. $7.
   b. $2.
   c. $5.
   d. impossible to determine.
5. A company currently sells 60,000 units a month at $10 per unit. The marginal cost per unit is $6. The company is considering raising the price by 10% to $11. If the price elasticity of demand is ____________________ in that price range, then profit would increase if the company decided to raise the price by 10%.
   a. Equal to -3
   b. Greater than +1
   c. Less than -2.5
   d. Greater than or equal to -2

Calculation questions:

#1. Suppose your market consists of 10 individuals with values of $1, $2, $3, $4, $5, $6, $7, $8, $9, and $10. Your marginal cost of production is constant and equal to $2.50. What is the profit maximizing price?

#2. You won a free ticket to see a Bruce Springsteen concert (assume the ticket has no resale value). U2 has a concert the same night, and this represents your next-best alternative activity. Tickets to the U2 concert cost $80, and on any particular day, you would be willing to pay up to $100 to see this band. Assume that there are no additional costs of seeing either show. Based on the information presented here, what is the opportunity cost of seeing Bruce Springsteen?