

Name _____

Number _____

Please fill in your name and student number on the green sheet; also fill in the grid below your student number.

Test 3
Economics 321
Chappell
November 28, 2001

Part I. Multiple Choice: Give answers to multiple choice questions on the green sheet.

Part II. Answer only 2 of 3 analytical questions.

Part II. Analytical Questions. Answer only 2 of 3.

1. Use a diagram to illustrate the profit maximizing price and quantity chosen by a monopolist. Your diagram should include the following curves: demand, marginal revenue, marginal cost, and average cost. Briefly explain the nature of the inefficiency of the monopoly outcome.

2. The University of Rochester has a fixed number of parking spaces for students on campus. They are currently sold at a price that clears the market. It has been proposed that the price should be lowered and a lottery held to determine who may park on campus. Each winner of the lottery would receive a ticket entitling him to purchase a parking space, and these tickets could be freely bought and sold. the number of winners would be equal to the number of parking spaces.
 - a. Graph the supply and demand for parking spaces. Show on your graph the price of a ticket. Show the consumers' surplus (earned by the parkers), the producers' surplus (earned by the university), and the total value of the tickets to the winners of the lottery. Who gains, who loses, and who is unaffected if this plan is adopted.
 - b. The nearby University of Retsehcor is identical to the University of Rochester in every way except two. First, nobody at Retsehcor has proposed a lottery plan as at Rochester. Second, someone at Retsehcor has proposed that the university hold a lottery and give cash gifts to randomly chosen students. Compare the effects of the Retsehcor plan with those of the Rochester Plan. Explain.
 - c. An alternative proposal at the University of Rochester would institute the lottery without allowing the resale of tickets. The university would carefully monitor compliance, expelling any lottery winner who allowed his parking spot to be used by anybody else. how would this revision affect welfare if the enforcement mechanism were successful?

3. Suppose that you are the monopoly owner of a movie theater. Suppose that there are two types of theater-goers. The two types differ in their popcorn preferences – at any given price, “high-demand” customers would buy more popcorn than “low-demand” customers. Use a diagram to explain why you would charge a price above marginal cost for popcorn when there are two types of customers (but would charge a price equal to marginal cost if all customers were the same).

Hint: Think of popcorn as being sold via a two-part tariff. The fixed fee portion of the two-part tariff is simply added to the price of admission to the theater.