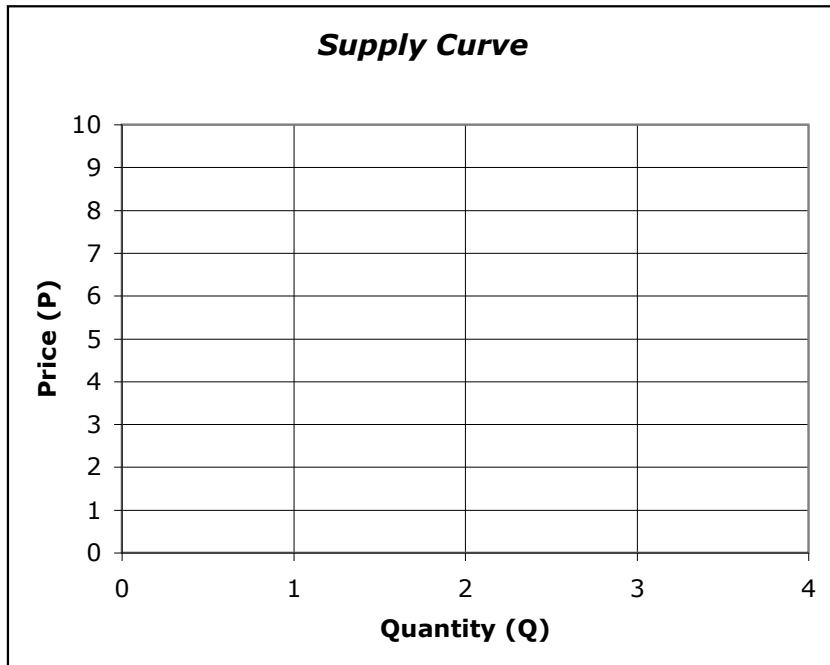Econ 1 M10
Quiz 2   Name_____ Perm_____

1. Suppose the market for Campbell's Soup (which is an <u>inferior good</u>) is initially in equilibrium. If a prolonged recession causes the average income of Americans to fall, what will happen to the equilibrium price and quantity of Campbell's Soup?

    Price _____ (increases, decreases)   Quantity _____ (increases, decreases)

    Use the following information to answer questions 2-3:

Quantity	Total Cost
0	$0
1	$2
2	$5
3	$10

2. Graph the Supply Curve using the information above:

Supply Curve

Price (P) vs Quantity (Q)

3. What is Producer Surplus when P=$4? _____. Shade this area on your graph.

Use the following information to answer questions 4-6.

The market for widgets is described by the following equations:
Demand: $Q = 25 - P/4$
Supply: $Q = P$

4. What are the equilibrium price and quantity?

   P = _____   Q = _____

5. What is the consumer surplus at the equilibrium price? _____

6. What is the elasticity of demand at equilibrium? _____

Use the following information to answer questions 7-10:
   Tubby's Ice Cream produces ice cream using labor (workers) and capital (freezers, ice cream machines, warehouses, etc). For simplicity, assume that labor and capital are the only inputs needed to produce ice cream (i.e. they don't need any cream, sugar or flavorings). Suppose that Tubby's cannot adjust the amount of capital it has, and must pay *$500 per day* to rent this equipment regardless of how much ice cream it makes. Tubby's can, however, choose any number of workers it wishes to hire, but it must pay *$100 per day* to each worker. Given Tubby's fixed capital, below is a schedule of how many tubs of ice cream can be produced with a given number of workers.

N (number of workers)	Q (tubs of ice cream)
0	0
1	200
2	700
3	900
4	1000
5	1050

7. If Tubby's produces 700 tubs of ice cream, what is their Total Cost? _____

8. What is Tubby's marginal cost if it produces 1,050 tubs of ice cream?

   _____

9. How many tubs of ice cream will Tubby's produce if the price is $1.50? _____

10. What will Tubby's profit be if the price is $1.50? _____