Intermediate Microeconomic Analysis (Econ 173) Signature: _____
Drake University, Fall 2011
William M. Boal Printed name: _____

EXAMINATION #1 VERSION A
"Mathematical Tools"
September 7, 2011

INSTRUCTIONS: This exam is closed-book, closed-notes. Calculators, mobile phones, and wireless devices are NOT permitted. Point values for each question are noted in brackets. As usual in this course, "*exp(x)*" denotes the exponential function (also written e^x) while "*ln(x)*" denotes the natural logarithm function (logarithm to base *e*).

I. MULTIPLE CHOICE: Circle the one best answer to each question. Use margins for scratch work. [3 pts each—33 pts total]

(1) Suppose $y = 4x^2 + 7x + 3$. Then the derivative of y with respect to x is
a. $dy/dx = 4$.
b. $dy/dx = 8$.
c. $dy/dx = 7x + 3$.
d. $dy/dx = 8x + 7$.
e. $dy/dx = 4x + 7$.
f. $dy/dx = 4x^2 + 7x + 3$.

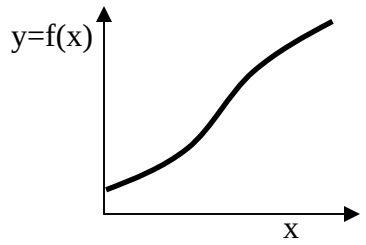
(2) Suppose $y = 3(5x+1)^{-2}$. Then the derivative of y with respect to x is
a. $dy/dx = 3$.
b. $dy/dx = -6$.
c. $dy/dx = (5x+1)^{-3}$.
d. $dy/dx = -6\,(5x+1)^{-3}$.
e. $dy/dx = -30\,(5x+1)^{-3}$.
f. $dy/dx = 3(5x+1)^{-3}$.

(3) Which of the following functions has constant slope (or derivative)?
a. $y = 4 + 3x$.
b. $y = 4 + (3/x)$.
c. $y = 4 + 3x + 2x^2$.
d. $y = 4x^{-3}$.
e. $y = 4 \ln(3x)$.
f. $y = 4 \exp(3x)$.

(4) If x increases by 2 percent, then ln(x) increases by about
a. ln(2), or about 0.7 units.
b. 0.02 percent.
c. 2 percent.
d. 2 units.
e. 0.02 units.

(5) Suppose we wish to maximize the function $y = f(x)$, which is continuously differentiable. Assuming there are no restrictions on the possible values of x, the maximizing value x* must satisfy
a. $x^* = 0$.
b. $d^2y/dx^2 = 0$, if $x = x^*$.
c. $dy/dx = 0$, if $x = x^*$.
d. $f(x^*) = 0$.
e. All of the above.

The next question refers to the following graph of $y = f(x)$.

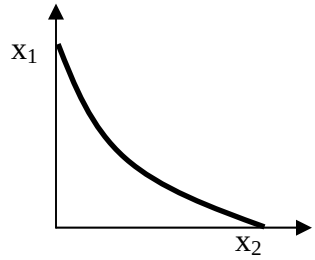


(6) In this graph, the derivative of y with respect to x (that is, df/dx) equals zero at
a. no point on the graph.
b. one point on the graph.
c. two points on the graph.
d. three points on the graph.
e. four points on the graph.
f. more than four points on the graph.

(7) Suppose y and x are strictly positive variables. If the derivative (dy/dx) is *zero*, then the elasticity of y with respect to x
a. must be positive.
b. must be negative.
c. must be zero.
d. can be positive or negative but not zero.
e. can be positive, negative, or zero.

(8) Which of the following functions has constant elasticity?
a. $y = 4 + 3\,x$.
b. $y = 4 + (3/x)$.
c. $y = 4 + 3\,x + 2\,x^2$.
d. $y = 4\,x^{-3}$.
e. $y = 4\,\ln(3x)$.
f. $y = 4\,\exp(3x)$.

The next two questions refer to the following graph of a level curve, or contour, of the function $y = f(x_1,x_2)$.



(9) As we move along this curve down and to the right, which is diminishing?
a. y .
b. x_2 .
c. both x_1, and x_2 .
d. the marginal rate of substitution.
e. all of the above.

(10) According to this graph, if x_2 decreases and y is to be held constant, then x_1 must
a. equal zero.
b. increase.
c. decrease.
d. remain constant.
e. cannot be determined from the information given.

(11) Which of the following functions has constant partial elasticities (ε_1 and ε_2) ?
a. $y = 8\,x_1^{\,3}\,x_2^{\,2}$.
b. $y = 8\,(x_1-3)^2\,(x_2-2)^2$.
c. $y = 8 + 3\,x_1 + 2\,x_2$.
d. $y = 8x_1 + 3x_2 + 2\,(x_1x_2)^{1/2}$.
e. $y = 8 + 3\,x_1^{\,-1} + 2\,x_2^{\,-1}$.
f. $y = 8 + 3\,x_1^{\,1/2} + 2\,x_2^{\,1/2}$.

II. SHORT ANSWER: Please write your answers in the boxes on this question sheet. Use margins for scratch work.

(1) [8 pts] Suppose the derivative of the function $y = f(x)$ equals –3 at a particular value of x. Moreover, the elasticity of y with respect to x equals –1.2.

First, suppose that x increases by 0.5 units.

a. Will y *increase* or *decrease*?

b. By about how much? units

Alternatively, suppose that x decreases by 5 percent.

c. Will y *increase* or *decrease*?

d. By about how much? %

(2) [8 pts] Consider the function $y = f(x_1,x_2)$. Suppose at a particular point, $\partial y/\partial x_1 = 3$, and $\partial y/\partial x_2 = 4$, and that the partial elasticities are $\varepsilon_1 = 0.5$ and $\varepsilon_2 = 1.5$.

First suppose that x_1 decreases by 0.4 and simultaneously x_2 increases by 0.5.

a. Will y *increase* or *decrease*?

b. By about how much? units

Alternatively, suppose that x_1 increases by 4 percent and x_2 decreases by 2 percent.

c. Will y *increase* or *decrease*?

d. By about how much? %

(3) [6 pts] Consider the function $y = f(x_1,x_2)$. Suppose at a particular point, $\partial y/\partial x_1 = 2$, and $\partial y/\partial x_2 = 5$.

a. Does the level curve of the function slope *up* or *down* at that point?

Further suppose x_2 increases by 1 unit, but suppose we want to keep the value of y constant.

b. Must x_1 *increase* or *decrease*?

c. By about how much? units

(4) [4 pts] Revenue equals price times quantity sold. Suppose price increases by 2 percent and the quantity sold decreases by 5 percent.

a. Will revenue *increase* or *decrease*?

b. By about how much? %

(5) [4 pts] Average cost equals total cost divided by total output. Suppose total output increases by 5 percent and total cost increases by 3 percent.

a. Will the average cost *increase* or *decrease*?

b. By about how much? %

III. PROBLEMS: Please write your answers in the boxes on this question sheet. Show your work and circle your final answers.

(1) [Optimization: 8 pts] Consider the function $y = f(x) = 6 \ln(x) - 2x$.

a. Find a formula (in terms of x) for the derivative of y with respect to x (dy/dx).

b. Compute the value x* that maximizes this function.

(2) [Partial elasticities: 8 pts] Suppose $y = (x_1 - 5)^3 x_2^2$.

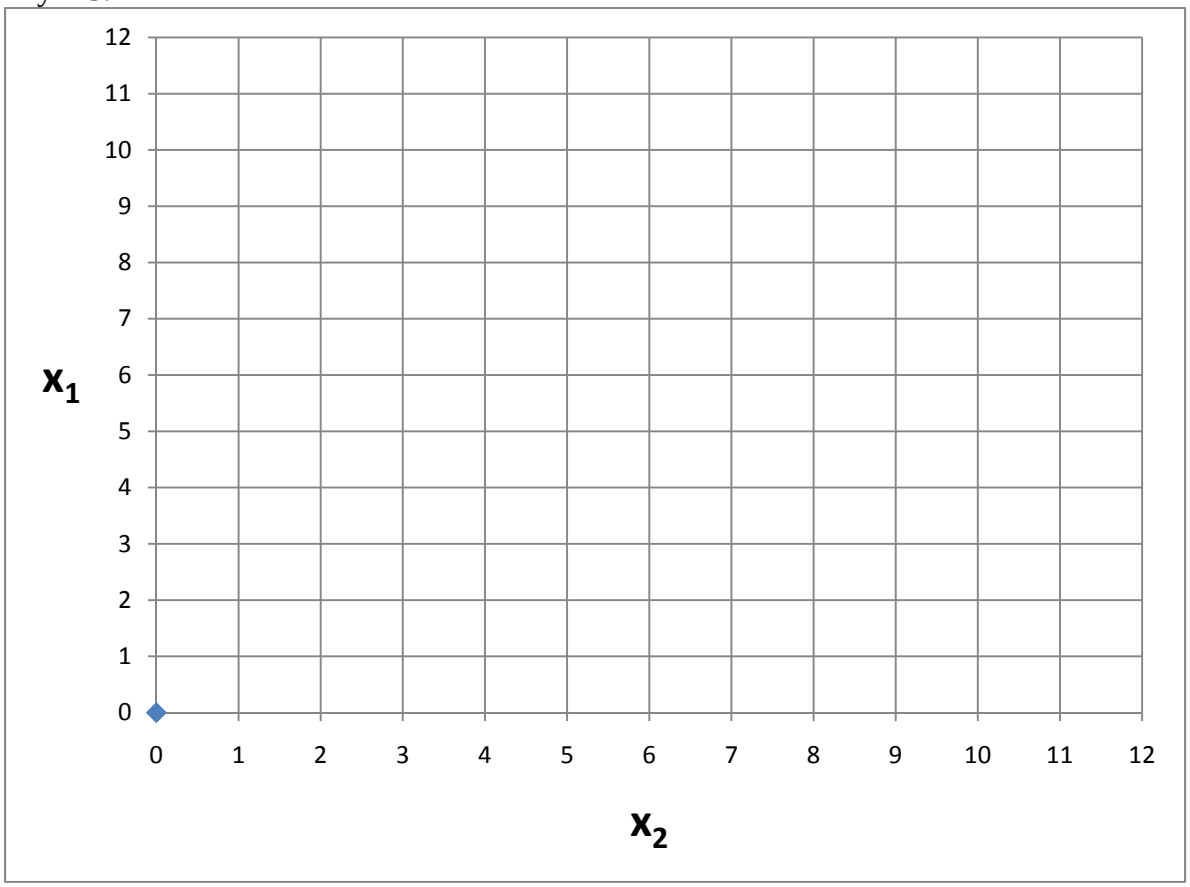
a. Find a formula for ε_1 , the partial elasticity of y with respect to x_1. Express your answer in terms of x_1 and x_2 alone, not y.

b. Find a formula for ε_2 , the partial elasticity of y with respect to x_2. Express your answer in terms of x_1 and x_2 alone, not y.

(3) [MRS: 8 pts] Consider the function $y = 0.25\,x_1 + 0.5\,x_2$.

a. Give the marginal rate of substitution of x_2 for x_1 (that is, is the |slope| of the level curve with x_1 on the vertical axis and x_2 on the horizontal axis) for this function.

b. Carefully draw the level curve of this function when $y = 1$ and the level curve when $y = 3$.



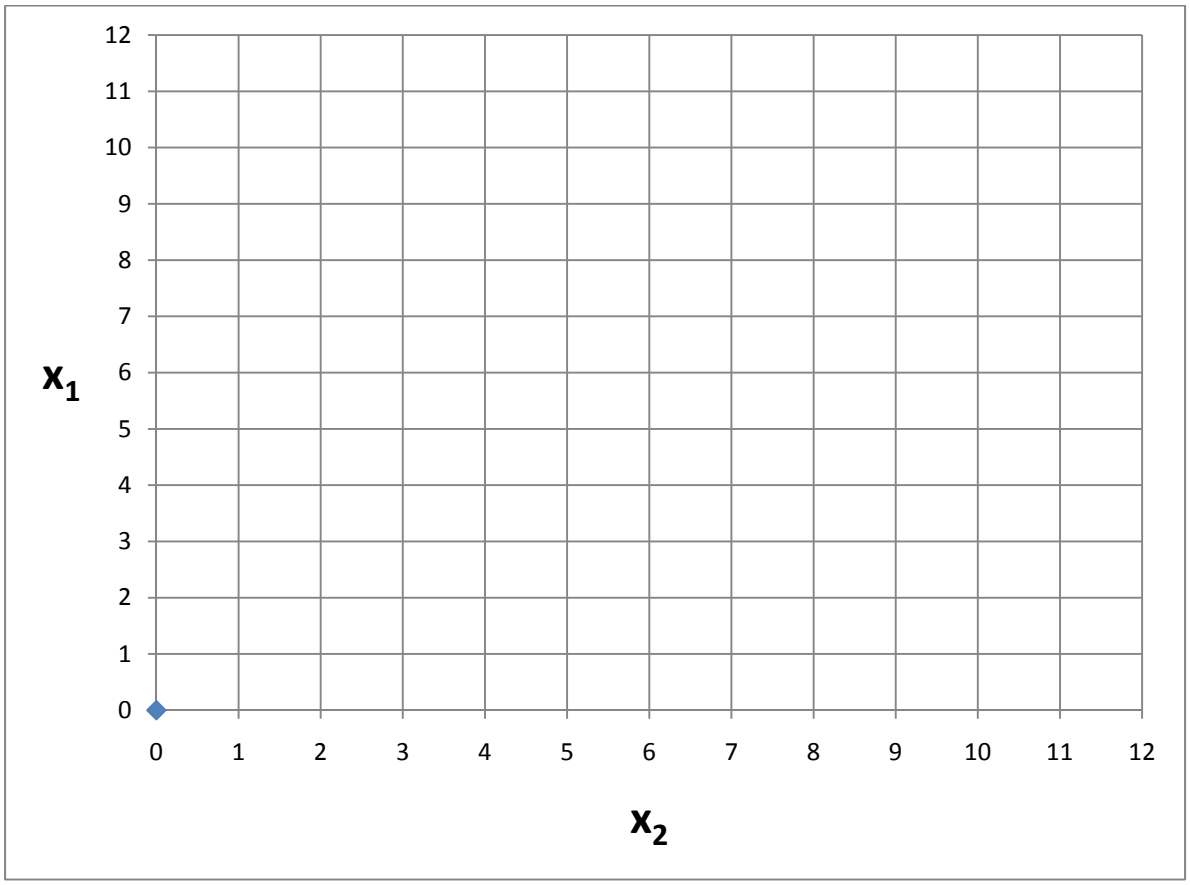
(4) [MRS: 8 pts] Suppose $y = f(x_1,x_2) = -5/x_1^2 - 3/x_2^2$. The arguments x_1 and x_2 are strictly positive.

a. Find an expression for the marginal rate of substitution of x_2 for x_1 (that is, the formula for the |slope| of the level curves of y, with x_1 on the vertical axis and x_2 on the horizontal axis).

b. Give an example of a different function $y = g(x_1,x_2)$ that has exactly the same formula for the marginal rate of substitution as $f(x_1,x_2)$.

IV. CRITICAL THINKING: [5 pts]

(1) Suppose $y = f(x_1,x_2)$. Further suppose $\partial y/\partial x_1$ is nonzero, but $\partial y/\partial x_2$ is always equal to zero. Sketch two level curves of this function in the graph below.



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