

ECON 107

Quiz 2

This quiz will last 10 minutes.

1. (12 points) **Honor Statement:** Please read and sign the following statement:

I promise that my answers to this test are based on my own work without reference to any notes, books, or the assistance of any other person. I will also neither help others nor use a calculator or other electronic aid for calculation.

Name and Surname: _____

Student ID: _____

Signature: _____

2. (4 points) I stated that even if markets are not exactly in equilibrium it is important to assume they are. Why is this?

Solution 1 *It is a disciplining device, if our model does not predict the equilibrium then the model must be wrong. For example, say that I altered the payoffs of the "side of the road game" so that there was only one equilibrium. This would be contradicted by the fact that in the real world in some areas people drive on the left hand side and in others everyone drives on the right.*

3. (6 points total) About Sunk costs.

- (a) (3 points) Define sunk costs.

Solution 2 *A sunk cost is money (or resources) that is (are) not recoverable.*

- (b) (3 points) Given an example of a sunk cost.

Solution 3 *Of course I saw many examples like those given in class, an interesting one was "money spent on fixing up a house before selling it." Realtors often say that you should fix up obvious and annoying problems in your house before selling it, and while that is true after you have spent that money it is a sunk cost and will not affect future negotiations.*

4. (3 points) Standard feedback questions:

- (a) Out of ten, my level of comprehension of the material covered this week is:
- (b) My favorite topic of the week was:
- (c) The topic I understood the least this week was: