1. Consider a market characterized by the following inverse demand and supply functions: PX = 40 - 4QX and PX = 10 + 2QX. Compute the surplus received by consumers and producers.

|  |  |
| --- | --- |
|  | $25 and $25, respectively. |
|  | $20 and $40, respectively. |
|  | $40 and $20, respectively. |
|  | $50 and $25, respectively. |

1. Long-term contracts:

|  |  |
| --- | --- |
|  | increase transaction costs and increase opportunism. |
|  | increase transaction costs. |
|  | can reduce opportunistic behavior. |
|  | reduce transaction costs and increase flexibility. |

1. Rent seeking:

|  |  |
| --- | --- |
|  | involves resources paid to politicians to enhance one group at the expense of another. |
|  | results in less monopoly power. |
|  | results in externalities. |
|  | None of the statements are correct. |

1. You are the manager of a firm that receives revenues of $20,000 per year from product *X* and $70,000 per year from product *Y*. The own price elasticity of demand for product *X* is -2, and the cross-price elasticity of demand between product *Y* and *X* is -1.5.  
     
   How much will your firm's total revenues (revenues from both products) change if you increase the price of good *X* by 1 percent?  
     
   **Instructions:** Round your answer to the nearest dollar. Include a minus (-) sign if applicable.