**Question 1**

11 points \((4 + 1 + 2 + 2 + 2)\)

(a) 4 points:
- One point is earned for a correctly labeled graph with a downward-sloping demand curve, with MR below demand.
- One point is earned for identifying the profit-maximizing output, \(Q_M\), at \(MC = MR\).
- One point is earned for identifying \(P_M\) on the demand curve above \(Q_M\).
- One point is earned for showing the area of loss shaded completely.

(b) 1 point:
- One point is earned for stating that price is greater than average variable cost, or total revenue is greater than total variable cost.

(c) 2 points:
- One point is earned for stating that the number of firms will increase.
- One point is earned for stating that economic profits will fall to zero or fall to a normal profit.

(d) 2 points:
- One point is earned for stating no.
- One point is earned for explaining that the firm’s price is greater than marginal cost.

(e) 2 points:
- One point is earned for stating yes.
- One point is earned for explaining that the firm produces a quantity of output in the declining portion of its long-run ATC.
Question 2

6 points (2 + 2 + 2)

(a) 2 points:
   • One point is earned for calculating the price of a unit of bananas, $4/8 = $0.50.
   • One point is earned for stating that Sasha will purchase fewer peanuts.

(b) 2 points:
   • One point is earned for stating that the equilibrium price and quantity of peanuts will both increase.
   • One point is earned for explaining that peanuts and bananas are substitutes, and since the price of bananas increased, it would cause the demand for peanuts to increase.

(c) 2 points:
   • One point is earned for stating that the substitution effect causes the quantity of bananas demanded to decrease.
   • One point is earned for stating that Sasha's real income will decrease.
Question 3

6 points \((1 + 2 + 1 + 1 + 1)\)

(a) 1 point:
- One point is earned for concluding that City Wheels maintains its current fare, since $180 > $120.

(b) 2 points:
- One point is earned for stating that Easy Ride does NOT have a dominant strategy.
- One point is earned for explaining that Easy Ride’s best move depends on City Wheels’ move.

(c) 1 point:
- One point is earned for stating that the profit to Easy Ride is $150 and the profit to City Wheels is $180.

(d) 1 point:
- One point is earned for stating that the cooperative solution is for both to maintain their current fares.

(e) 1 point:
- One point is earned for showing the correct entries in the new payoff matrix as follows:

<table>
<thead>
<tr>
<th>City Wheels</th>
<th>Maintain Fare</th>
<th>Lower Fare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintain Fare</td>
<td>$150, $180</td>
<td>$130, $160</td>
</tr>
<tr>
<td>Easy Ride</td>
<td>$160, $130</td>
<td>$180, $150</td>
</tr>
</tbody>
</table>