1. (4 points) Start with aggregated supply and demand curves, such as these:

![Supply and Demand Diagram](image)

Show how (one or both) curves shift (in or out) and the new equilibrium.

(a) (2 points) The government decides to subsidize university education. Draw S-D curves for education and labor (define what’s demand and what’s supply) before and after the subsidy.

(b) (2 points) Markets for fiction books versus one economics textbook. Draw two different sets of S-D curves. Show and discuss relative elasticities.
2. (4 points) A monopoly faces a direct demand curve of $Q = 2 - p$ and has a cost function of $c(Q) = \frac{1}{2}Q^2$.

Write down the business’ profit function ($TR - TC$) and find its profit maximizing quantity, price and profits.

Now draw supply, demand and marginal revenue (i.e., “relevant demand”) curves. Draw a dotted line on this same graph showing the firm’s profit curve. (Hint, find intercepts on the horizontal axis for ALL curves, then their intersections).
3. (2 points) In Chapter 10 (“Technology with a Human Face”), Schumacher compares mass production with production by the masses. Discuss these ideas in terms of labor (specialization) and demand for different cheeses. Now discuss the pros and cons of a government policy to increase “cheese production efficiency.”