

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. Therefore, a 18-point question should take 9 minutes. I will give a few extra minutes, but probably no later than about 5 or 10 after the hour.

1) (8 points) For EITHER the statement in part A OR the statement in part B, determine if it is a positive or normative statement. Explain your logic.

A) Everybody should enjoy open access to health care.

B) Health care subsidies will increase the demands for health care.

2) (16 points) Do EITHER part A OR part B.

A) Give an example of a negative externality and explain why they are a reason for government intervention.

B) What is meant by the tax incidence? Use a sales tax to explain why the tax incidence is not entirely the firm or the consumer.

3) (16 points) Do EITHER part A OR part B.

A) When asked about the opportunity costs of studying for a test, the student wrote, "I could have been studying for another course, going to a movie with friends, and sleeping." What is wrong with that answer?

B) The review sheet says, "Opportunity costs are the first of the great ideas in this course that help this course qualify for the fulfilling the Contemporary Society and Institutions requirement of graduation. Therefore, it is one of the most important parts of this course." What makes it such an important concept?

4) (20 points each) Illustrate TWO of the following events on the supply and demand for printed newspapers. Explain why the curve(s) moved as drawn and state what happens to price and quantity.

A) The government puts restrictions on how much logging can be done.

B) There are more internet news sites.

C) Fewer companies are willing to advertise in newspapers.

5) (20 points) Draw EITHER a price ceiling OR a quota that restricts the output of an industry on the supply and demand for a good. Explain why you drew the additional line where you did.

Also explain the problem that will be caused and how it is resolved without government intervention.