Write your name on the cover of the test booklet and nowhere else. Failure to follow these directions will cost you 1 point. The test has 150 points (to be scaled up to 210 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 16-point question should take 8 minutes. I will allow some extra time, but I will not allow much.

1) (10 points) Do EITHER Part A OR Part B.
A) What is meant by economic incentives? Give an example of one.
B) Is there a direct or inverse relationship between the number of hours you study for a test and your score? Explain your logic.

2) (10 points) Do EITHER Part A OR Part B.
A) What is meant by a price system?
B) How does a free market ration goods?

3) (14 points) Do EITHER Part A OR Part B.
A) Using appropriate economic terminology, explain why many of the best college athletes enter the draft and do not finish their college careers.
B) Suppose that a company builds a plant under budget. The CEO says that the company can now afford to buy him a boat at no additional cost. Explain the fault in this argument using appropriate economic terminology.

4) (14 points) Do EITHER Part A OR Part B.
A) Suppose that most people expected the inflation to be 5% and it turned out to be 1%. Who gains and who loses from that unexpected change? Explain your logic.
B) Explain TWO costs of high, but completely anticipated, inflation.

5) (18 points) Do EITHER Part A OR Part B.
A) Draw the PPF (a.k.a., PPC) curve for pens and oranges. Estimate the opportunity costs of pens at a given point. Briefly explain how you got those costs.
B) Draw the PPF (a.k.a., PPC) curve or cotton underwear and wooden desks. Illustrate an improvement in tree fertilizers. Explain why the curve(s) moved as drawn.

6) (18 points) For EITHER the item in Part A OR the item in Part B, explain why that item is an economic reason for government intervention.
A) Merit goods.
B) Negative externalities.

7) (20 points each) Draw TWO of the following events on the supply and demand for computers. Use separate graphs for the events and explain the movement(s) of the curve(s).
A) The incomes of the country increase.
B) The price of a television increases.
C) The government taxes computers.

8) (26 points) Describe TWO possible solutions to the social security problem, one of which you approve and one of which you disapprove. Explain how the solutions you describe would reduce the problem with social security, and explain your reasons for approval or disapproval.