

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 (to be scaled up to 150 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. You can take the whole period.

- 1) (8 points) Define EITHER *incentives* OR *comparative advantage*. Briefly explain why that term is important to Economics.

- 2) (10 points) Answer EITHER Part A OR Part B.
 - A) Define *Public Goods* and explain why it is an economic argument for a government.
 - B) Explain how a tax increase can bring in less revenue. Use a numerical example to elaborate on your description.

- 3) (10 points) Answer EITHER Part A OR Part B.
 - A) Draw the MD diagram and explain why it takes the shape you drew.
 - B) Why does $MV=PY$?

- 4) (10 points) Answer EITHER Part A OR Part B.
 - A) Why do we use *financial intermediaries*?
 - B) Explain *Ricardian Equivalence*?

- 5) (12 points) I said that *Opportunity Costs* are the most important part of this course. What are they and why are they so important?

- 6) (14 points) Answer EITHER Part A OR Part B.
 - A) What are TWO problems caused by economic growth? Explain how growth causes them.
 - B) Why is real GDP per capita a poor measure of how well off a country is? Give TWO reasons and explain them.

- 7) (18 points) Illustrate EITHER the event in Part A OR the event in Part B on the supply and demand diagram for Economics textbooks. Determine what happens to the price and quantity of Economics textbooks. Explain why the curve(s) moved as drawn.
 - A) The selling price of a Biology textbook increases.
 - B) The cost of paper increases.

- 8) (18 points) Answer EITHER Part A OR Part B.
 - A) Illustrate an increase in the number of workers on the PPF (PPC) for computers and bagels. Explain the movement of the curve(s).
 - B) Illustrate a price ceiling on the supply and demand for bananas. Use this to prove that consumers are hurt by it.