

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 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 10-point question should take 5 minutes. I cannot give extra time because of the class which follows yours.

1) (10 points) Answer EITHER Part A OR Part B.

A) What is meant by *incentives*? Why are they important in economics?

B) What is meant by *scarcity*? How do we see in the supply and demand diagram?

2) (10 points) Answer EITHER part A OR Part B.

A) Draw a graph with a line which has a slope of -2. Find two points and prove the slope is -2.

B) Draw a graph with a line which has a slope of $+\frac{1}{2}$. Find two points and prove the slope is $+\frac{1}{2}$.

3) (14 points) Answer EITHER Part A OR Part B.

A) How do we see the opportunity costs on the PPF (PPC) diagram?

B) I am thinking about going to see Mustard Plug, Against All Authority, The Code, and Westbound Train near Pittsburgh on Thursday, October 12th. Suppose you go to the concert. What would your opportunity costs be? List at least three costs.

4) (16 points) Answer EITHER Part A OR Part B.

A) Draw a PPF (PPC) for computers and oranges. Illustrate an improved technology for making computer chips. Explain why the curve moved as drawn.

B) Draw a PPF (PPC) for computers and oranges. Illustrate an increase in the labor supply. Explain why the curve moved as drawn.

5) (16 points each) Answer TWO of the following parts.

A) Illustrate an increase in the price of milk on the supply and demand for ice cream. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

B) Illustrate an increase in the price computer screens on the supply and demand for television screens. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

D) Illustrate an increase in incomes on the supply and demand for bananas. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

6) (18 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand for food. Put a price floor on the diagram. Explain the problem it causes and how the problem would resolve itself if the government takes no action.

B) Draw the supply and demand for a Bethany College education. Suppose the government decided to tax a college education. Illustrate the effects. Explain why the curve(s) moved as drawn. What happens to price and quantity? (Basically, that is the same as removing a subsidy. Bush has done a lot of that.)