

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 140 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) I feel that everybody in this class is smart enough to earn an A in this course. However, most of you are not going to get that grade. Explain the economic reason why not everybody will get an A.

B) What is the relationship between opportunity costs and the demand curve?

2) (12 points) Draw EITHER the MD curve OR the AD curve. Explain why it takes that shape.

3) (12 points) Answer EITHER Part A OR Part B.

A) I heard somebody on television say, "George W. Bush is the worst US President ever." Is that a positive or a normative statement? If the person had said, "George W. Bush has run the largest government deficit in the US history," then would that be a positive or a normative statement? Explain your logic for both parts.

B) If you were to draw a PPF (PPC) with tomatoes on the vertical axis (Y-axis) and melons on the horizontal axis (X-axis), then how would we see the opportunity costs of the third melon? Prove your statement. There is no need to draw the diagram, but you can.

4) (14 points) Answer EITHER Part A OR Part B.

A) What is meant by comparative advantage? Why must one party of a comparative advantage in one good if the other party has a comparative advantage in the other good? You can EITHER prove it with properly explained mathematics OR with the economic principles.

B) What are negative externalities? Why are they reasons for government intervention? There is NO need to draw a diagram.

5) (16 points) Which solution to the Social Security problem do you think is the best solution? Explain why it is a good solution and why one other solution is not as good.

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

A) Illustrate an increase in the price of fire trucks on the supply and demand for construction equipment. Explain why the curve(s) moved as drawn. What happened to the price and quantity sold?

B) Rent controls are really price ceilings on rent. Do they help the residents? Explain your logic using a supply and demand diagram for apartments.

7) (18 points) Answer EITHER Part A OR Part B.

A) Draw an increase in the marginal propensity to consume (MPC) on the Keynesian Cross, a.k.a., 45° diagram. Explain why the curve(s) moved as drawn.

B) Illustrate an improvement in technology on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn.