Wilfrid W. Csaplar Jr., Ph.D. Economics 162 Exam #1 2010/9/10

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 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (10 points) Answer EITHER Part A OR Part B.
A) What is wrong with this statement, "The opportunity costs of taking this exam is that I used up some ink from my pen, I could have slept for until 10:00, played on my X-Box, studied for another course, or taken a walk in the woods."
B) How do opportunity costs relate to the demand curve? Explain your logic.

2) (10 points) Answer EITHER Part A OR Part B.
A) What is wrong with this argument? When the incomes go up, people demand more cars. This causes the the demand curve to shift right and the price of cars to increase. The increase in the price of cars causes the supply to increase, which will move the supply curve down/right."
B) State the law of comparative advantage and EITHER briefly explain why it holds OR give a mathematical proof that it must hold.

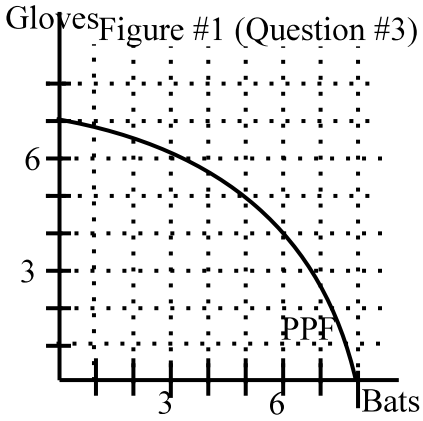

Figure #1 (Question #3)

3) (12 points each) Answer TWO of the following parts. For this question, and only this question, you can draw on Figure #1. However, all explanations must be in the blue books.
A) What are the opportunity costs of the third bat? Show all calculations and briefly explain what you did.
B) What are the opportunity costs of the sixth glove? Show all calculations and briefly explain what you did.
C) How many gloves can be made when five bats are made? What are the coordinates of that point? Briefly explain how you reached that conclusion.

4) (16 points) Illustrate EITHER the effects of the event in Part A OR the effects of the event in Part B on the PPF for buildings vs. food. Explain why the curve moved as drawn.
A) A new technology is developed which enables us to make bigger buildings using less material.
B) A new fertilizer is developed.

5) (20 points) Illustrate EITHER the effects of the event in Part A OR the effects of the event in Part B on the supply and demand for economics textbooks. Explain why the curve(s) moved as drawn. What happens to the price of economics textbooks and quantity sold?
A) Many students hearing Bob McCann's talks yesterday decide to change their major to being an economics major.
B) The income of students increases.

6) (20 points) Illustrate EITHER the effects of the event in Part A OR the effects of the event in Part B on the supply and demand for wooden doors. Explain why the curve(s) moved as drawn. What happens to the price of doors and quantity sold?
A) The price of dining room chairs increases.
B) The price of wood increases.