

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) Why are opportunity costs the most important concept of this course?

B) How do opportunity costs relate to the supply 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 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.”

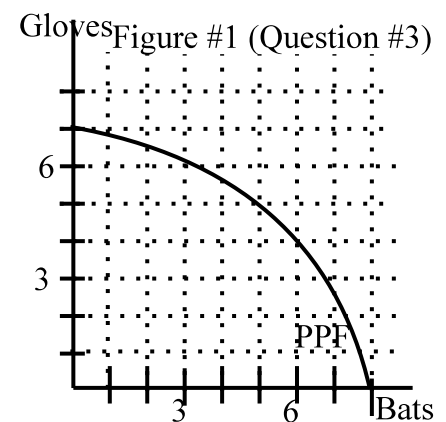
B) Explain the difference between positive and normative statements.

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 cars vs. houses. Explain why the curve moved as drawn.

A) A new, stronger and lighter material for cars is developed.

B) A new zoning law restricts where houses can be built.

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 bananas. Explain why the curve(s) moved as drawn. What happens to the price of bananas and quantity sold?

A) The price of cold cereal increases.

B) More people decide to be vegetarians.

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 pads of paper. Explain why the curve(s) moved as drawn. What happens to the price of pads of paper and quantity sold?

A) The price toilet paper increases.

B) The price of wood increases.