

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 I have a class after your class.

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

A) Explain how increasing a tax rate could cause the tax revenue from the tax to decrease. You do **not** need to give an mathematical example.

B) Why do I feel that most sales taxes are regressive?

2) (12 points) For EITHER *providing a legal system* OR *promoting competition*, explain why it is an economic reason for government.

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

A) Use terminology and logic from economics to prove that you should not have “pulled an all-nighter” last night.

B) For the homework question about the opportunity costs of going to college, I said that the meal plan might be an opportunity cost or it might not be. Explain both how it could be an opportunity cost and why it might not be.

4) (14 points) Illustrate EITHER the event in Part A OR the event in Part B on the PPF for bread and cars.

Explain why the curve moved as drawn.

A) The population increases.

B) A new fertilizer is developed which increases the output of what farms.

5) (16 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand for cars. Illustrate the effects of a rumor that the price of cars will be much higher next year. (Assume people believe it.) Explain why the curve(s) moved as drawn. What happens to the quantity sold and the price paid?

B) Draw the supply and demand for books. Illustrate the effects of an increase in the price of paper. Explain why the curve(s) moved as drawn. What happens to the quantity sold and the price paid?

6) (16 points) Answer EITHER Part A OR Part B.

A) Draw the line $Y = 4 - (2/3)X$. What are the slope, y-intercept, and x-intercept. Briefly explain how you found each part and show all calculations.

B) Use the table to the right to determine the marginal tax rate, total taxes paid, and average tax rate for a person earning \$60,000. Show all work. If there is no work, then briefly explain what you did.

Bracket	Rate
\$0 - \$10,000	10%
\$10,000-\$40,000	20%
\$40,000-\$90,000	25%
>\$90,000	30%

7) (20 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand for steel whose production makes a lot of pollution. Use the diagram to prove that we do not make the socially optimal quantity of steel. What do economists say should be done about that? Illustrate the effects of that action on the graph. Explain why the curve(s) moved and how that reaches the socially optimal point.

B) Draw the supply and demand for bread. Prove the equilibrium is the socially optimal point. Place a quota on bread. Explain why the graph looks as drawn. What is the new price and quantity sold?