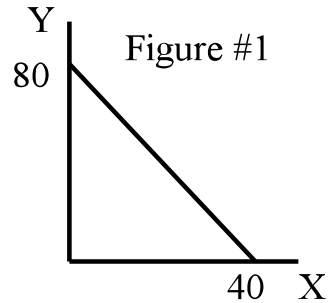


Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 16-point question should take 8 minutes. I will give a few extra minutes, but probably no later than about 5 minutes, i.e., until the end of the hour.

1) (10 points) Do EITHER part A OR part B.

A) Do the price of Coke and the quantity of Pepsi have a direct or inverse (or as the review sheet incorrectly calls it indirect) relationship? How do you know?

B) Find the slope of the graph on the right. Show all work.



2) (10 points) Do EITHER part A OR part B.

A) In the song *Dopeman* by Less Than Jake, it says Dopeman’s going “to sell it to you or anyone he can, because it is much better than minimum wage.” Explain this statement in economic terms. (They are not endorsing selling drugs. Later in the song, they imply that society must change to reduce the incentives for dope selling.)

B) The review sheet says, “Opportunity costs are the first of the great ideas in this course that help this course qualify for fulfilling the *Contemporary Society and Institutions* requirement for graduation.” Why are opportunity costs very important?

3) (16 points) Do EITHER part A OR part B.

A) Draw a normal PPC (a.k.a. PPF) and explain why the it takes that shape.

B) Illustrate on the PPC (a.k.a. PPF) for compact disks and raspberries, an improved fertilizer. Explain why the curve moved as drawn.

4) (16 points) For EITHER of the proposals below, explain how it will help to reduce the problem with the future funding of social security. Make sure you explain the cause of the problem with social security that the proposal is trying to solve.

A) Allow more immigration.

B) Allow people to direct part of their social security payments into stock and bond funds.

5) (24 points) Do EITHER part A OR part B.

A) Illustrate a quota on the supply and demand diagram for SUVs. Explain why the diagram looks like you drew, what the price is, how you got the price, and what problem is caused.

B) Illustrate on the supply and demand diagram for gasoline the social costs from the negative externality of pollution from driving. Explain why the graph looks like you drew. Where is the socially optimal point and why is that not the equilibrium?

6) (24 points) Suppose that a student had to answer the question, “Illustrate on the supply and demand diagram for televisions, an increase in the price of computer screens.” The student answered by drawing figure #2 and writing, “Since computer screens are not inputs in making televisions, the supply curve does not move. I will assume that they are complements in consumption. Therefore, the demand for televisions will increase and cause more televisions to be sold at a higher price.” There are at least four problems with the explanation and/or the graph. Find THREE of them and explain why they are wrong.

