Wilfrid W. Csaplar Jr., Ph.D. Economics 162 Make-Up Exam #1 2003/02/26

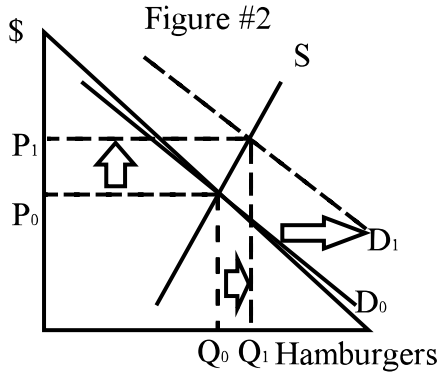
Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 16-point 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) Plot two points on the line Y = 4 - 2X, and draw a straight line through them. Show all work.
B) Do the level of income and the quantity of hamburger have a direct or inverse (as the review sheet incorrectly calls indirect) relationship? Briefly explain your logic.

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) Illustrate on the PPC (a.k.a. PPF) for computers and bananas, an improved microchip. Explain why the curve moved as drawn.
B) How does the concept of opportunity costs apply to the shape of the PPC (a.k.a. PPF)?

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) Eliminate the wage cap.
B) Raise the minimum age for receiving benefits.

5) (24 points) Do EITHER part A OR part B.
A) Illustrate a price floor on the supply and demand diagram for wheat. 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 hamburgers, an increase in the price of leather jackets." The student answered by drawing figure #2 and writing, "Since leather jackets are not inputs in making hamburgers, the supply curve does not move. I will assume that they are complements in consumption. Therefore, the demand for hamburgers will increase and cause more hamburgers 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.