Wilfrid W. Csaplar Jr., Ph.D.   Economics 162   Exam #1 Make Up   2006/02/06

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 10-point question should take 5 minutes. I cannot give extra time because of the class which follows yours.

1) (10 points) Answer EITHER Part A OR Part B.
A) A song buy the Dropkick Murphys says, "I designed the Sears Tower. I make two grand an hour, I make the world's best duck flambée." Assuming that the statement is true and that $2000/hour is what he earns working as an architect, should he be hired to make a duck flambée for a fancy occasion? Explain your logic.
B) Suppose that you went to see the Steelers in the Super Bowl. What would your opportunity costs have been? Briefly explain your logic.

2) (6 points) Answer EITHER Part A OR Part B.
A) Define *ceteris paribus* and briefly explain how it is used in economics.
B) Define *incentives* and briefly explain how it is used in economics.

3) (20 points each) Illustrate TWO of the following events on the supply and demand for economics textbooks. Explain why the curve(s) moved as drawn and determine what happens to the price and quantity sold. Use separate graphs for the TWO parts.
A) Students find out that the last valedictorians of Bethany College were economics majors and they got excellent jobs.
B) The price of Biology textbooks increases.
C) The price of paper increases.

4) (20 points) Answer EITHER Part A OR Part B.
A) Draw a PPF (PPC) for oranges and books. Find a point on the line which has the opportunity costs of a book equaling two oranges. Explain how you know that point has that cost.
B) Draw a supply and demand diagram for food. Suppose the government wants to help farmers; therefore, they place a price floor on food. Illustrate that event on the curves. What problems are caused by this? What must the government do to prevent these problems? What problem does that government action cause? Explain your logic.

5) (24 points) Answer EITHER Part A OR Part B.
A) Use a supply and demand diagram for flower gardens to prove that without government intervention, the socially optimal number of flower gardens will not be produced. Illustrate on that diagram the method which economists would use to fix the problem. Explain how that government action would fix the problem.
B) Use the supply and demand for balloons to prove that the free market will produce the socially optimal quantity of balloons. Why does this logic fail with public goods?