

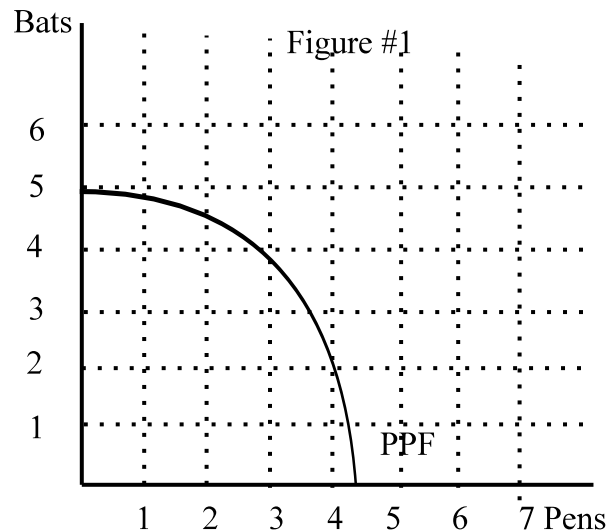
Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 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) (8 points) Drawing directly on Figure #1, find EITHER the opportunity costs of the fourth pen OR the opportunity costs of the second bat. Show all work.

2) (16 points) Answer EITHER Part A OR Part B.

A) When answering the homework question about the opportunity costs of going to college. Some students said that the cost of food was one of the costs. Explain how this could be a true statement for some students. Explain why it might not be a true statement for others.

B) Explain how opportunity costs cause the demand curve to take its shape.



3) (16 points) Draw the PPF (PPC) for bananas and HDTV sets. Illustrate EITHER an increase in the population OR an new technology which allows us to make the HDTV sets cheaper. Explain why the curve moved as drawn.

4) (18 points each) Answer TWO of the following parts.

A) Draw the supply and demand for notebooks. Draw the effects of a law which reduces the number of trees which can be cut down. Explain why the curve(s) moved as drawn. What happens to the price of notebooks and the quantity sold?

B) Draw the supply and demand for Boston Red Sox hats. Suppose they were to win their first 50 games this year. Illustrate the effect of that on the diagram. Explain why the curve(s) moved as drawn. What happens to the price of the hats and the quantity sold?

C) Draw the supply and demand for car stereos. What would happen if the price of home stereo systems were to increase? Illustrate that on the diagram and explain why the curve(s) moved as drawn. What happens to the price of car stereos and the quantity sold?

5) (24 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand for gasoline. Use it to prove that because of its negative externality, we use too much gasoline – i.e., not the socially optimal quantity. From an economist's point of view, what is the best remedy for the problem? Use the diagram to show how that would solve the problem.

B) Draw the supply and demand diagram for tobacco. The government has at times put price floors on tobacco. Illustrate that. Explain the problem it causes and how the market would reduce that problem if the government does nothing except have the price floor.