

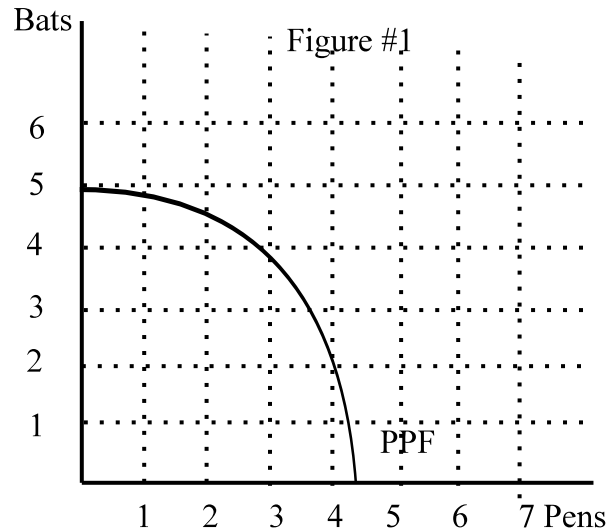
Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 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 asked about the opportunity costs of studying for a test, a student answered, "I could have gone to the movies, spent time with my friends, studied for another course, gone to bed early, or gone bowling." What is wrong with this answer? Explain your logic.

B) Explain how opportunity costs cause the supply 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 refrigerators. Draw the effects of a new firm entering the market. Explain why the curve(s) moved as drawn. What happens to the price of refrigerators and the quantity sold?

B) Draw the supply and demand for NY Giants hats. They were to win the Super Bowl 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 computer monitors. What would happen if the price of televisions were to increase? Illustrate that on the diagram and explain why the curve(s) moved as drawn. What happens to the price of computer monitors 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 bread. Suppose the government puts a price ceiling on bread. Illustrate that. Explain the problem it causes and how the market would reduce that problem if the government does nothing except have the price ceiling.