

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 150 points (to be scaled up to 210 points) and is scheduled to take 75 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) (10 points) Answer EITHER Part A OR Part B.

A) How do opportunity costs relate to the demand curve?

B) Nation-wide, the average Assistant Professor of Business earns about twice what the average Assistant Professor of English earns. What is the economic reason for this? After all, most schools hire more English professors, so why are they not paid more?

2) (12 points) For EITHER providing a public good OR income redistribution, explain why it is an economic reason for a government.

3) (12 points) Answer EITHER Part A OR Part B.

A) What do economists mean by “scarce”? By that definition, is food scarce?

B) What does it mean to say a country has a comparative advantage in a particular good?

4) (16 points) Answer EITHER Part A OR Part B.

A) Explain why increases the tax rate could reduce tax revenue. Use a numerical example to prove your point.

B) Draw the Laffer Curve and explain why it takes its shape.

5) (18 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand diagram for a product which creates a positive externality. Prove that the socially optimal point is not achieved by the market. **Do not** illustrate how the government can reduce the problem.

B) Draw the supply and demand for a good with a price ceiling. Use the diagram to prove that consumers are hurt by it.

6) (18 points) Answer EITHER Part A OR Part B.

A) Draw a PPF (PPC) for Economics textbooks and diamond rings. Illustrate the effects discovering a new diamond mine. Explain why the curve moved as drawn.

B) Draw a PPF (PPC) for telephones and bricks. Illustrate an increase in the population. Explain why the curve moved as drawn.

7) (20 points each) Answer TWO of the following questions.

A) Draw the supply and demand for snow shovels. Illustrate the effect of the weather in the past few weeks. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

B) Draw the supply and demand for compact discs. Illustrate the effect of an increase in the price of oil. (Plastic is made from oil.) Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

C) Draw the supply and demand for peanut butter. Illustrate the effect an infestation of an insect which eats peanut plants. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

8) (24 points) What is the problem facing the Social Security system? For EITHER raising the Social Security tax OR raising the retirement age, explain how that would reduce the problem. Would you use that as part of the solution? Explain your logic.