

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 supply curve?

B) At many schools, especially large universities, it is hard to get somebody to be the chair of the department. What is the economic reason for that? After all, chairs are paid more, so shouldn't it be easy to find one?

2) (12 points) For EITHER providing a legal system OR promoting competition, explain why it is an economic reason for a government.

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

A) Draw a PPF (PPC) and find a point which is efficient. Explain how you know it is efficient.

B) What is *ceteris paribus*? How do we use it in this course?

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 negative 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 quota. Find the price and quantity sold. How does that compare to the market equilibrium without a quota?

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

A) Draw a PPF (PPC) for cars and trucks. Illustrate the effects discovering a new metal which can be used for vehicles. Explain why the curve moved as drawn.

B) Draw a PPF (PPC) for bread and windows. Illustrate the effects of a drought. Explain why the curve moved as drawn.

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

A) Draw the supply and demand for Economics textbooks. Illustrate the effects of an increase in the number of majors in Economics. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

B) Draw the supply and demand for aluminum trash cans. Illustrate the effect of an increase in the price of aluminum. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

C) Draw the supply and demand for notebooks. Illustrate the effect a law which restricts logging. 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 reducing benefits paid OR raising the retirement age, explain how that would reduce the problem. Would you use that as part of the solution? Explain your logic.