

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

A) When I lived in Cairo, Egypt, I would go out to eat regularly. Living in Bethany, I rarely go out to eat. Use logic and terminology from economics to explain the difference. (Hint: The same logic would apply to any big city. You do not need to know anything about Cairo in particular.)

B) Being a double major helps you to get a better job. However, few students double major. Use terminology and logic from economics to explain why this is true.

2) (12 points) Answer EITHER Part A OR Part B.

A) State the Law of Comparative Advantage and explain what that means for whether or not we want free trade.

B) Some books state the economics is “the study of incentives.” State what that means and how that relates to the slope of the demand curve.

3) (14 points) For EITHER public good OR providing a legal system, explain why it is an economic argument for having a government.

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

A) Draw the PPF for food and watches. Illustrate the effects of a lot of refugees coming into the country. Explain why the curve moved as drawn.

B) Draw the PPF for computers and artwork. Illustrate the effects of a new computer chip. Explain why the curve moved as drawn.

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

A) Draw the supply and demand for pasta. Draw the effects of more people being diagnosed with diabetes. (Diabetics should not eat high carbohydrate food like pasta.) Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

B) Draw the supply and demand for fancy hats. Illustrate the effects of people getting poorer. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

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

A) Draw the supply and demand for desks. Illustrate the effects of the prices of bedframes going up. Explain why the curve(s) moved as drawn. What happens to the price of desks and the quantity of desks sold?

B) Draw the supply and demand for pizza. Illustrate the effects of an increase in the price of mozzarella cheese. Explain why the curve(s) moved as drawn. What happens to the price of pizza and the quantity sold?

7) (18 points) Answer EITHER Part A OR Part B.

A) Draw a PPF for food and clothing. Find a point on the graph which has the opportunity cost of one unit of clothing being two units of food. Explain how you found the point. Show all calculations which prove your

opportunity costs of clothing is two units of food.

B) Draw a line through the points (1,4) and (2,2). Find the slope. Show all work and briefly state what you did.

8) (20 points) Answer EITHER Part A OR Part B.

A) Suppose there is a project which will cost \$1000. It will enable the organization who does the project to sell 1 item to each of 500 people at \$3 profit per item. There is a negative externality which affects 400 people and it costs each of them \$2 each. Should the project be done? Explain your logic. Would the market provide it? Explain your logic. Would the government provide it? Explain your logic.

B) Suppose there is a project which will cost \$1000. It will enable the organization who does the project to sell 1 item to each of 300 people at \$3 profit per item. There is a negative externality which affects 200 people and it costs each of them \$1 each. Should the project be done? Explain your logic. Would the market provide it? Explain your logic. Would the government provide it? Explain your logic.

9) (22 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand for a product like coal which creates a negative externality. Prove the market will not produce efficiently. How do economists say to solve the problem? Draw the effects of that policy on the graph. Explain why that solves the problem.

B) Draw the supply and demand for a good which has a price floor. Prove the market will not produce optimally. How would the problem be fixed if the government did nothing else? Show that on the graph and explain how you came to that conclusion.