

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

A) Do poor people or rich people clip coupons more often? Explain your logic using logic and terminology from economics.

B) In the song *Dopeman* by Less Than Jake, they sing about selling dope, "It's either that or working for minimum wage at the 7-11." They are explaining why some people sell dope. (However, they are not condoning selling dope.) Use terminology and logic from economics to explain what they are saying.

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) *Ceteris paribus* is an important phrase in this course. What does it mean? When should we use it?

3) (14 points) For EITHER public good OR promoting competition, 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 shirts and telephones. Illustrate the effects of a larger cotton crop. Explain why the curve moved as drawn.

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

A) Draw the supply and demand for gym memberships. Illustrate the effects of people deciding they want to get into better shape. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

B) Draw the supply and demand for peanut butter. Illustrate the effects of a decrease in the price of bread going down. Explain why the curve(s) moved as drawn. What happens to the price of peanut butter and the quantity of peanut butter sold?

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

A) Draw the supply and demand for refrigerators. Illustrate the effects of an increase in the price of air-conditioners. Explain why the curve(s) moved as drawn. What happens to the price of refrigerators and the quantity of refrigerators sold?

B) Draw the supply and demand for filing cabinets. Illustrate the effects of an increase in the price of steel. Explain why the curve(s) moved as drawn. What happens to the price and quantity of filing cabinets 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 \$2000. It will enable the organization who does the project to sell 1 item to each of 500 people at \$6 profit per item. There is a negative externality which affects 400 people and it costs each of them \$4 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 \$1400. It will enable the organization who does the project to sell 1 item to each of 300 people at \$4 profit per item. There is a negative externality which affects 100 people and it costs each of them \$3 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 ceiling. 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.