Wilfrid W. Csaplar Jr., Ph.D. Economics 163-2 Exam #1 2018/2/8

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 170 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) I heard a female member of Congress (who I cannot remember her name) on NPR yesterday say approximately "I oppose the wall because the money could be put to better use being spent elsewhere, like infrastructure and schools." Use terminology and logic from this course to explain what she means. (I am neither endorsing nor opposing her views.)
B) There is a common phrase, "There is no such thing as a fee lunch." Use terminology and logic from this course to explain what they mean.

2) (12 points) For EITHER the item in Part A OR the item in Part B, give me a number which you would guess to be the elasticity of demand. Explain how you reached your conclusion. (The number you give will be marked correct providing it agrees with your logic. Most of the points will be for your logic.)
A) Under Armour clothing
B) cigarettes

3) (14 points) Answer EITHER Part A OR Part B.
A) Draw a PPF for tomatoes and computers. Suppose the government bans the best fertilizer because it causes cancer. Illustrate the effects of the ban. Explain why the curve moves as drawn.
B) Draw a PPF for gasoline and desks. Illustrate the effects of a new oil well drilled. Explain why the curve moved as drawn.

4) (18 points) For EITHER the data in Part OR the data in Part B, calculate the elasticity of demand using both the arc formula and the point formula. Write the equation you used and show all work. What type of elasticity is that? Explain your logic.
A) At a price of $10/unit they sell 40 and at a price of $30/unit they sell 20.
B) At a price of $5/unit they sell 100 and at a price of $50/unit they sell 50.

5) (20 points) Answer EITHER Part A OR Part B.
A) Draw a PPF for raincoats and hats and use it to prove the law of comparative advantage.
B) On the homework question about opportunity costs of going to college, I accepted room and board from some students but not others. Explain the criteria I used and why I used it. On the homework question about moving the PPF when the population increased, I did not accept the logic that with more people we need more produced. Why didn't I accept that logic?

6) (24 points) Answer EITHER Part A OR Part B.
A) Draw the supply and demand for wood. Illustrate the effects of loggers getting an hourly pay increase. Explain why the curve moves as drawn. What happens to the price and quantity sold? Find the consumer surplus and producer surplus before and after the pay increase. Which is bigger?
B) Draw the supply and demand for air conditioning units. Illustrate the effects of a decrease in the price of refrigerators. Explain why the curve moves as drawn. What happens to the price of air conditioners and quantity of air conditioners sold? Find the consumer surplus and producer surplus before and after the price increase. Which is bigger?