

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 I have a meeting after your class.

1) (10 points) Answer EITHER Part A OR Part B.

A) According to an article on JP Morgan's webpage, "Holding too much cash can have significant [negative] impact on your long-term goals." Explain this using terminology we have learned this semester. Do not go to the link now.

<https://privatebank.jpmorgan.com/gl/en/insights/planning/the-opportunity-cost-of-holding-too-much-cash>

B) I believe that everybody with a good mathematics background can get a great grade in this course.

However, few have a great grade. Use terminology from this course to explain why more people are not doing well.

2) (10 points) Answer EITHER Part A OR Part B.

A) Explain the difference between an increase in demand and an increase in the quantity demanded.

B) On a PPF diagram, is it possible for an economy to be inside the PPF? What do we call that situation?

3) (14 points) Answer EITHER Part A OR Part B.

A) One the homework question about the opportunity costs of college, many students wrote that housing and meal plan were opportunity costs. Most of the students who wrote that, had their answer crossed off for being wrong. However, a few got full credit. Why didn't I accept most of the answers people gave? What did the few students write that got them full credit? Explain why that mattered.

B) State the Law of Comparative Advantage. What does that mean about whether we should have free trade or restrict trade? Explain your logic.

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

A) Draw a PPF for pants and corn. Illustrate the effects of an increase in the number of people. Explain why the curve moved as drawn.

B) Draw a PPF for machines and food. Find a point on the graph where the opportunity costs of 1 machine is 2 units of food. Explain how your graph shows that opportunity costs.

5) (16 points) Answer EITHER Part A OR Part B.

A) Draw the graph for $Y = 5 - (3/2)X$. What are the slope, Y-intercept, and X-intercept? Show all work. If there is no work, state how you got your answer.

B) Draw the line through the points (0, 5) and (2, 2). What is the slope of the line? Show all work.

6) (20 points) Answer EITHER Part A OR Part B.

A) Draw the supply/demand diagram for blueberries. Illustrate the effect of people finding out that they are one of the best foods for good health. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

B) Draw the supply/demand diagram for new cars. Illustrate the effect of more people telecommuting. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

7) (20 points) Answer EITHER Part A OR part B.

A) What is the most common way to ration goods in the USA? Explain how that works. Give another example of how goods can be rationed. Explain how that works.

B) Draw the supply/demand diagram for taxis. NYC has a quota on the number of taxis in the city. Illustrate the effects of that on the diagram. Explain why the diagram changed as drawn. What happens to the price and quantity sold?

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

A) Draw the supply/demand diagram for school buses. Illustrate the effects of an increase in the price of large trucks used for shipping. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

B) Draw the supply/demand diagram for automobiles. 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 sold?

9) (24 points) Answer EITHER Part A OR Part B.

A) Draw a supply/demand diagram for gasoline. Gasoline causes negative externalities. Prove that the market will not create the optimal quantity and price. How do economists say this problem should be reduced? Illustrate that on the graph. Explain why the curve(s) moved as drawn.

B) In 2008, Mexico put price ceilings on many types of processed food. Illustrate the effects of that event on the supply/demand for canned chillies (one of the products with a ceiling). Explain why the diagram changed as drawn. Are producers helped or hurt by this action? Explain your logic. Are consumers helped or hurt by this action? Explain your logic.

<https://www.theguardian.com/world/2008/jun/20/mexico.food> (Do not go to it now.)