

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type this assignment will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (40 points) Draw side-by-side, two PPF/indifference curve diagrams. One for the UK and one for the EU. Have the two goods be shirts and cars. Cars are capital intensive and shirts are labor intensive. Draw them such that the two countries have identical tastes but different production capabilities. State how your graphs show identical tastes but different production capabilities. Add the price lines to find the production points and consumption points. Briefly explain how you found all of those points. Which country is exporting which good? How can you tell? How does your graph show that both countries gain? Pretend they are the only two countries in the world.

2) (20 points) What is meant by the MRS? Why is it equal to  $MU_X/MU_Y$ ? Why is the absolute value of the slope of the isoquant equal to the MRS?

3) (5 points) Why can't indifference curves cross?

4) (10 points) Explain why indifference curves get flatter as they go from left to right.

5) (15 points) What is meant by the MRT? Why is the absolute value of the slope of the PPF equal to the MRT?