

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) (15 points) Suppose that in the USA, it takes 1 hour to make a shirt and 5 hours to make a dress. In China, it takes $\frac{1}{2}$ hour to make a shirt and $1\frac{1}{2}$ hours to make a dress. Who has a comparative advantage in each good? Explain your logic and show all calculations. At what price could we trade? Explain how you reached that conclusion.

2) (20 points) Suppose that the USA has a normally shaped PPF for computers and printers. The world price of a computer equals two printers. Draw a PPF/indifference curve diagram which illustrates this information and the USA importing 20 printers. State how your graph shows the correct prices and the USA importing 20 printers. How many computers do we export? How did you reach that conclusion?

3) (10 points) We say that markets fail under many circumstances. Explain why they fail with negative externalities. Make sure you give an example of a negative externality.

4) (40 points) Draw the S/D diagrams for high quality cars and low quality cars such that initially, half of the cars are each type. If people cannot tell the difference before purchasing, what will happen to the two demand curves. Explain and illustrate the first movement of each diagram. Where will the two diagrams end up eventually? Explain they end there.

5) (5 points) According to the article below, Hyundai was the first car company to offer a 5 year warranty in 1999. Why do you think they were the first to do it rather than some other company?
<https://getjerry.com/questions/when-did-the-mitsubishi-10-year-warranty-start>

6) (10 points) Some economists feel that a college education is increasingly a signal to an employer. How does it signal and why does that matter to employers?