

Write your name on the cover of the test booklet and nowhere else. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. I can give some extra time, but not much.

1) (10 points) Do EITHER Part A Or Part B.

A) Explain how taxes affect economic incentives.

B) Define *ceteris paribus*. Explain why we, implicitly, we should be using it every time we move a graph.

2) (16 points each) Illustrate **TWO** of the following on the supply and demand for **orange juice**. Explain the movement(s) of the curve(s). Show on the graph and state in the writing, what happens to the price and quantity of orange juice.

A) Florida becomes the first state since 1886 to be hit by four hurricanes in one year.

B) People become more aware of the need to get vitamin C from natural sources.

C) The price of **fresh oranges** increases.

3) (16 points) Opportunity costs are the most important concept in economics. Even though we did not explicitly state it, opportunity costs play important roles in both the supply and demand curves. For EITHER the supply curve OR the demand curve, explain how opportunity costs play a role in where the curve is.

4) (20 points) Do EITHER Part A OR Part B.

A) If a government wants to reduce the production of a good, they can either put on a quota or they can tax the production of the product. If you were in the government, which option would you choose? Explain why you would choose that option. Use the supply and demand for a good to show how the option you chose will make the good less available.

B) Starting in the 1920s, the US government put a tax on the sugar that could imported. Illustrate that on the supply and demand for sugar in the USA. Explain the movement(s) of the curves. If you had been a producer who uses sugar in its production, what would you have done? Why would you have done that?

5) (22 points) Do EITHER Part A OR Part B.

A) Markets do not work well when there are positive externalities. Explain the positive externalities generated by healthcare. Use the supply and demand for healthcare to prove that the market will not supply the optimum level of healthcare.

B) Use a PPF (a.k.a. PPC) to show that socialized medicine (providing everybody with all the healthcare they want for free) will cause the wrong level of healthcare being provided. Explain the economic logic as to why the wrong level of healthcare is provided.