

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 225 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. I can give extra time, but I will not give a lot of extra time.

1) (6 points each) Use *Figure #1* to answer THREE of the following parts. *Point A* is on the line where the arrow is pointing. Show all work and BRIEFLY explain each part. You can write on the graph.

- What are the coordinates of *Point A*?
- What is the slope of the line at *Point A*?
- How much are the opportunity costs of producing the third television?
- What is the maximum output of televisions that is possible when we are producing five cars?

2) (10 points) Define EITHER frictional unemployment OR tax base. BRIEFLY explain why that term is important for this course.

3) (12 points) Both the supply and the demand curves can be explained using the term opportunity costs. Explain how ONE of the curves can be explained using opportunity costs.

4) (14 points) Answer EITHER the question in Part A OR the question in Part B.

- Explain TWO problems with high unemployment other than reduced output.
- If the expected inflation rate is 7% and the actual inflation is 5%, then who gains and who loses? Explain your logic.

5) (14 points) Answer EITHER Part A OR Part B.

- Explain why positive externalities are a reason for government intervention in the market.
- Explain the economic reason that an inequitable distribution of income is a reason for government action.

6) (20 points each) Answer TWO of the following questions.

- Illustrate an increase in the number of firms producing cars on the supply and demand for cars. What happens to the equilibrium output and quantity. Explain your logic.
- Illustrate an increase in the price of wooden desks on the supply and demand for wooden lawn furniture. What happens to the equilibrium output and quantity. Explain your logic.
- Use the supply and demand for computers to prove that a production quota on computers hurts the consumer. Explain your logic.

7) (20 points) Explain the problem with social security. For EITHER removing the income cap OR raising the retirement age, explain how that would reduce the social security problem. Would you use that solution? Explain your logic.

8) (22 points) Answer EITHER Part A OR Part B.

- Use a PPF (PPC) for current consumption goods versus capital goods to explain why consuming more now means we cannot consume as much in the future.
- Illustrate an improved engine on a PPF (PPC) for cars and beer. Explain why the curve moved as drawn.

