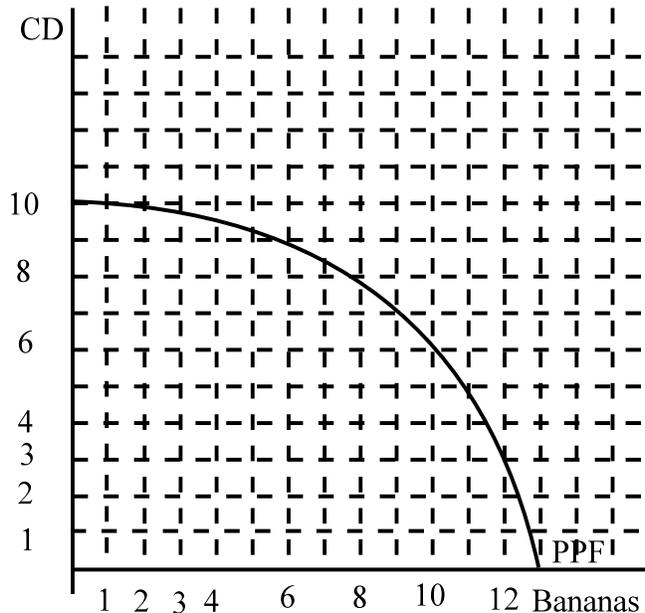


Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 10-point question should take 5 minutes. I cannot give extra time because some students have a class after your class.

1) (6 points each) Answer TWO of the following parts using the graph to the right. Briefly explain how you reached your conclusion and show all work. You can draw directly on the graph.

- A) What is the slope of the line when there are 12 bananas produced?  
 B) What is the opportunity costs of the 12<sup>th</sup> banana?  
 C) What is the opportunity costs of the 3<sup>rd</sup> CD?



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

A) Explain how opportunity costs relate to the demand curve.

B) An article in the Wall Street Journal, said: *[T]he federal government has spent more than \$400 billion on operations in Iraq. That figure, [was] calculated by the Congressional Budget Office . . . One Web site divides the cost among U.S. adults, showing visitors how each adult could have bought two pairs of Manolo Blahnik patent-leather pumps, or 1,858 longneck bottles of Bud or Bud Light beer. A blogger conjured up the notion that \$400 billion would buy enough golf balls to fill all the tractor-trailers it would take to reach across a 13-lane highway, bumper-to-bumper, from Los Angeles to New York.* Would that be the opportunity costs of the war? Explain your logic. The article can be found at:

[http://online.wsj.com/article/numbers\\_guy.html?mod=djemnumbers](http://online.wsj.com/article/numbers_guy.html?mod=djemnumbers),

3) (16 points) Illustrate EITHER the event in Part A OR the event in Part B on the PPF (PPC) for guns and roses. Explain why the curve moved as drawn.

- A) A better fertilizer is invented.  
 B) The population increases.

4) (18 points each) Illustrate TWO of the following events on the supply and demand for steel desks. Explain why the curves moved. What happens to the price and quantity? Draw the two answers on separate diagrams.

- A) People become richer.  
 B) The price of steel increases.  
 C) The price of steel filing cabinets increases.

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

A) Draw the supply and demand for a good which causes a negative externalities, like gas-guzzling cars. Explain how it shows that the market will not reach the optimal point. What should the government do to fix this problem? Illustrate that solution on the graph and explain why it solve the problem.

B) Draw the supply and demand for a good which has a price ceiling. Are consumers helped by the ceiling? Explain your logic.