

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 210 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (10 points) Answer EITHER Part A OR Part B.

- A) Use terms from economics to explain why few students attended the review session last night.
 B) How do opportunity costs relate to the demand function? Explain your logic.

2) (12 points) Answer EITHER Part A OR Part B.

- A) Use the table to the right to determine the marginal tax rate, total taxes paid, and average tax rate for a person earning \$100,000. Show all work. If there is no work, then briefly explain what you did.
 B) What is the economic reason that increasing a tax rate could result in less tax revenue coming in? Give a numerical example that proves your point.

Bracket	Rate
\$0 - \$20,000	15%
\$20,000-\$40,000	25%
\$40,000-\$110,000	30%
>\$110,000	40%

3) (12 points) Answer EITHER Part A OR Part B.

- A) What is the most common method of rationing in the USA? Explain your logic.
 B) What is the Law of Comparative Analysis?

4) (12 points) Answer EITHER Part A OR Part B.

- A) What is meant by a “regressive tax”? Why do I feel most sales taxes are regressive?
 B) When economists talk about taxes, they normally mention incentives. Explain how incentives relate to taxes.

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

- A) Draw a line $Y = 4 - (2/3)X$. State how you drew it.
 B) Suppose you drew a PPF (PPC) with bats on the vertical axis and cars on the horizontal axis. How would you find the opportunity costs of the 6th car? Explain how you would find the answer without drawing the graph. Make sure you explain how you know the formula is correct.

6) (14 points) For EITHER providing a public good, OR promoting competition, explain what that means and explain why that is an economic reason for a government.

7) (18 points) Illustrate EITHER the event in Part A OR the event in Part B on the PPF (PPC) for cars vs. paper.

- A) Congress passes a law which reduces the number of acres of trees which are allowed to be cut down.
 B) The population increases.

8) (18 points) Answer EITHER Part A OR Part B.

- A) Draw the supply and demand for tobacco. There used to be a price floor on tobacco from the farm. Illustrate that floor. Explain the problem it causes. If the government does nothing other than have the floor, how will the market resolve the problem? Explain your logic.
 B) Draw the supply and demand for a product like electricity from coal, which creates pollution. (There is no such thing as “clean coal.”) Prove that the socially optimal point will not be chosen by the market. Explain your logic. Do NOT worry about how to fix the problem.

9) (20 points each) Answer TWO of the following questions.

- A) Illustrate the effects of an increase in the price of jelly on the supply and demand for peanut butter. Explain why the curve(s) moved as drawn. What happens to the price and quantity of peanut butter sold?
 B) Illustrate the effects of an increase in the price of paper on the supply and demand for textbooks. Explain why the curve(s) moved as drawn. What happens to the price and quantity of textbooks sold?
 C) Illustrate the effects of an increase in the price of desks on the supply and demand for doors. Explain why the curve(s) moved as drawn. What happens to the price and quantity of doors sold?