

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) (10 points each) Answer TWO of the following parts using the graph on the right. You can draw directly on the graph. **Show all work and briefly explain what you did.**

- A) What is the slope of the PPF (PPC) at the point where there are four bananas bought?
 B) What is the opportunity cost of producing the eleventh banana?
 C) What is the opportunity cost of producing the fifth CD?

2) (12 points) For EITHER public goods OR inequitable distribution of income, define the term and explain why it is an **economic reason** for government intervention in the market.

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

- A) Is the statement, "President George W. Bush is a terrible president" a positive or a normative statement? Explain your logic.
 B) Explain the difference between *a change in demand* and *a change in the quantity demanded*.

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

- A) An article on the BBC.com said "A hospital building programme in South Africa has been put back, to help pay for the football World Cup which the country is hosting in 2010." This quotation is an example of what economic principle? Explain your logic.
 B) Suppose a student was asked about their opportunity costs of taking this test and they answered, "I could have gotten an hour more sleep or studied for a test in another course. I also used ink." What is wrong with this answer? Explain your logic.

5) (20 points) Illustrate EITHER the event in Part A OR the event in Part B on the supply and demand for goose-down pillows. Explain the movement(s) of the curve(s). What happens to the price and quantity of goose-down pillows sold?

- A) Geese replace turkeys for Thanksgiving dinners.
 B) Bird flu kills a large number of geese.

6) (24 points) Answer EITHER Part A OR Part B.

- A) Draw the supply and demand diagram for a product which causes a negative externality. Explain why the socially optimal level of production will not be achieved. What should the government do to reach the socially optimal point? Illustrate that and explain how it achieves socially optimal output.
 B) Draw the supply and demand for a product with a price floor. What is the problem that it causes? If the government does nothing, then what will happen? Why does that happen?

