

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) Referring to the appropriate categories of unemployment, explain why full employment is not 0% unemployment.
- B) Explain why the supply curve slopes up.

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

- A) In 2010, the World Cup will be in South Africa. According to a BBC article I read a couple of years ago, South Africa has delayed building some hospitals because of the building of soccer stadiums. Using the language of economics, explain why they are doing this.
- B) In bad economic times, more people attend college, especially community colleges. Using the language of economics, explain why they are doing this.

3) (14 points) Answer EITHER Part A OR Part B.

- A) Explain why “providing a legal system” is an economic reason for government.
- B) Explain what “public goods” are and why they require government intervention in the market.

4) (16 points) Answer EITHER Part A OR Part B.

- A) Use a supply and demand diagram to prove that the socially optimal quantity is not produced when there are negative externalities. **Do not** worry about how the government can fix the problem.
- B) What is wrong with this logic? “When shipping costs go up, firms charge more for their goods. This causes the price to go up and reduces the demand. Therefore, the demand curve moves left, resulting in lower sales.”

Bracket	Rate
\$0 - \$10,000	10%
\$10,000 - \$30,000	20%
\$30,000 - \$60,000	30%
> \$60,000	40%

5) (16 points) Answer EITHER Part A OR Part B.

- A) Use the table to the right to calculate the total taxes paid, average tax rate, and marginal tax rate for a person earning \$50,000. Show all work and briefly explain what you did.
- B) Suppose there are 9000 people with jobs, 1000 people without jobs but looking for jobs, 9,800 people without jobs who do not want jobs, and 200 people without jobs who want jobs but have quit looking for them. Calculate the unemployment rate and the labor force participation rate. Briefly explain how you got each number and show all work.

6) (20 points) Answer EITHER Part A OR Part B.

- A) Draw the supply and demand for peanut butter. Illustrate an increase in the price of fertilizer on the diagram. Explain why the curve(s) moved as drawn. What happens to the price and quantity of peanut butter sold?
- B) Draw the supply and demand for hand-carved furniture. Illustrate an increase in the wages of the

workers on the diagram. Explain why the curve(s) moved as drawn. What happens to the price and quantity of furniture sold?

7) (20 points) Answer EITHER Part A OR Part B.

A) Draw a PPF (PPC) for coconuts and apples with a scale on the axes. Find the opportunity costs of the second apple. Explain how you found the opportunity costs and show all work.

B) Draw a PPF for wheat and cars. Illustrate an improvement in the irrigation systems used on farms. Explain why the curve moved as drawn.

8) (20 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand for corn. Illustrate a price ceiling on it. Explain why the graph looks as you drew it and explain how it hurts the consumer.

B) Draw the supply and demand for imports. Illustrate a quota on it. Explain why the graph looks as you drew it and explain how it hurts the consumer.

9) (22 points) Answer EITHER Part A OR Part B.

A) What is the problem with Social Security? For “solution” increasing the retirement age, explain how it will reduce the problem. Would you use it? Explain your logic.

B) What is the problem with Social Security? For “solution” increasing the salary cap, explain how it will reduce the problem. Would you use it? Explain your logic.