

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 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (12 points) Answer EITHER Part A OR Part B.

A) If you are taking 16 credit hours, then the tuition alone for this course is \$2034. If you divide that by the number of times this class meets, then you are paying approximately \$50 for each class. Therefore, should the \$50 be included in the opportunity costs of skipping class? Explain your logic.

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

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

A) Find the opportunity costs of the third bat on Figure #1. You can draw on the graph, but show all work and put your explanation of what you did in the bluebook.

B) Suppose I told you the demand curve for cats is given by $P_{\text{cats}} = 10 - 2Q_{\text{cats}}$. Draw that demand curve and briefly explain how you found it. What are the slope and vertical intercept? Explain your logic

3) (18 points) Answer EITHER Part A OR Part B.

A) Draw the PPF for cars vs. bananas. Illustrate the effects of a new technology which means cars can be made with less metal. Explain why the curve moved as drawn.

B) Draw a PPF for rugs vs. oil. (Both are Iraqi exports.) Illustrate the effects of the war in Iraq on the graph. Explain why the curve moved as drawn.

4) (18 points each) Answer TWO of the following questions.

A) Draw the supply and demand for printer paper. Illustrate the effects of an increase in the price of envelopes. Explain why the curve(s) moved as drawn. What happens to the price of printer paper and the quantity sold?

B) Draw the supply and demand for snow shovels. Illustrate the effects of the unusually snowy weather the east coast has seen this winter. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

C) Draw the supply and demand for plastic chairs. Illustrate the effects of an increase in the price of oil. (Oil is used to produce plastic.) Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

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

A) Use the supply and demand for housing to prove that rent controls (a price ceiling on rental housing) will hurt the consumer. Explain your logic.

B) Use the supply and demand for corn to show how a price floor will prevent the markets from working efficiently. Explain how the market would correct the problem if there was no additional government action.

