

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. **Except for Question #1, I will not grade what is written on this sheet.**

1) (14 points) For this question, you can draw directly on the graph.

However, do all calculations and explanations in the bluebook.

Answer EITHER Part A OR Part B.

A) Approximately, what is the opportunity costs of the 7th coat? Show all work in the bluebook and briefly explain how you found it.

B) Approximately, what is the opportunity costs of the 6th fan? Show all work in the bluebook and briefly explain how you found it.

2) (10 points) For ONE of the following reasons for government, state the argument. Explain why it is an economic reason for having a government.

A) Providing a legal system

B) Promoting competition

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

A) For the homework question about the opportunity costs of going to college, I accepted meal plan and housing from some students, but not from others. Explain when it is a valid cost and why it is valid then, but why it is not valid at other times.

B) Use economic theory to explain why Accounting professors get paid more than other professors at most small colleges.

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

A) Prove that police protection is not a public good. Make sure you give two reasons.

B) Draw the supply and demand for a product like gasoline which creates a negative externality. Use the diagram to prove that the market will not provide the optimal quantity of gasoline. You do **not** need to explain how economists fix this problem.

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

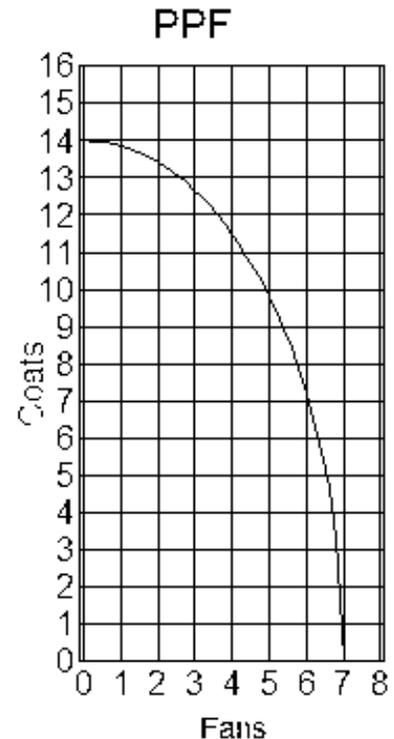
A) Draw a PPF for desks and gasoline. Environmentalists want to have drilling for oil in the Arctic Ocean banned. Illustrate the effects such a ban would have on the graph. Explain why the curve moved as drawn.

B) Draw the PPF for cucumbers and hats. Illustrate the effects of an improved fertilizer. Explain why the curve moved as drawn.

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

A) Draw the supply and demand for shorts. Illustrate the effect of people deciding they want to run more because that is healthy. Explain why the curve(s) moved as drawn. What happens to the price charged and the quantity sold?

B) From January of 2008 until May of 2008, worldwide people started to believe that there was going to be



much higher prices on rice in the near future. Illustrate the effects of this change in expectations on the supply and demand for rice. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

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

A) Draw the supply and demand for corn in the grocery store. Recently, biodegradable trash bags made from corn oil have started to become popular. Illustrate the effects of this on the supply and demand for corn in the grocery store. Explain why the curve(s) moved as drawn. What happens to the price of corn in the grocery store and the quantity sold?

B) Draw the supply and demand for cotton curtains. Illustrate the effects of a decrease in the price of cotton. Explain why the curve(s) moved as drawn. What happens to the price and quantity of curtains sold?

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

A) Suppose there is a project which helps one person \$5000 and costs \$4000. It causes a negative externality which hurts 100 people \$20 each. Should this project be done? Would the market provide it? Would the government provide it? Show all calculations and BRIEFLY explain how you reached each conclusion.

B) Voting (public choice) and the market have different advantages and disadvantages. One of them has the advantage that the consumer can show how much they want it, but they cannot show that they dislike it. The other allows people to show they do not want something, but does not allow people to show how intensely they like it. Which is voting and which is the market. Explain how the one allows people to show intensity of liking something and how the other enables people to show they dislike something.

9) (24 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand for bananas. Decades ago, the Greek government put a quota on bananas. Illustrate the effects of that on the diagram. Explain why the diagram looks as drawn. What happens to the price and quantity? Are consumers and producers helped or hurt? Briefly explain your logic.

B) Draw the supply and demand for bread. About a decade ago, Zimbabwe's government placed a price ceiling on bread. Illustrate the effects of that on the diagram. Explain why the diagram looks as drawn. What happens to the price and quantity? Are consumers and producers helped or hurt? Briefly explain your logic.