

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

- A) What is meant by *ceteris paribus*? Why should it appear in most of the questions I ask on this exam?
- B) Draw the line  $Y = 3 - \frac{2}{3}X$ .

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

- A) Use logic and terminology from economics to explain some people did not attend the review session for this exam.
- B) In the song “It’s Still Rock and Roll To Me”, Billy Joel sang, “Should I be a straight A student? If you are, then you think too much.” Use logic and terminology from economics to explain what he meant.

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

- A) How do opportunity costs relate to the supply curve? Explain your logic.
- B) What is the advantage of the market over voting? Explain your logic.

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

- A) Draw a PPF for hammers and corn. Illustrate the effects of a drought. Explain why the curve moved as drawn.
- B) Draw a PPF. Use its slope to prove the Law of Comparative Advantage.

5) (16 points) For EITHER promoting competition OR providing a public good, explain what that means and why it means we need a government.

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

- A) Draw the supply and demand diagram for electric cars. Illustrate the effects of people becoming more concerned about climate change. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?
- B) Draw the supply and demand for chairs. Illustrate the effects of people expecting that chairs will be more expensive next year. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

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

- A) Draw the supply and demand for cars. President Trump’s trade restrictions have caused an increase in the prices of steel and aluminum. Illustrate the effects of this on your diagram. Explain why the curve(s) moved as drawn. What happens to the price and quantity of cars sold?
- B) Draw the supply and demand for riding lawnmowers. Illustrate the effects of an increase in the price of motorcycles. Explain why the curve(s) moved as drawn. What happens to the price and quantity of riding lawnmowers sold?

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

A) Suppose there is a project which will cost \$2000. It will enable the organization who does the project to sell 1 item to each of 900 people at \$3 profit per item. There is a negative externality which affects 400 people and it costs each of them \$2 each. Should the project be done? Explain your logic. Would the market provide it? Explain your logic. Would the government provide it? Explain your logic.

B) Suppose there is a project which will cost \$1000. It will enable the organization who does the project to sell 1 item to each of 400 people at \$2 profit per item. There is a positive externality which affects 250 people and it benefits each of them \$1 each. Should the project be done? Explain your logic. Would the market provide it? Explain your logic. Would the government provide it? Explain your logic.

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

A) Draw the supply and demand for corn. Illustrate the effects of a price floor on corn. Explain why the graph changes as drawn. What problem is caused? How can you tell? If the government does nothing, how will the market solve this problem? Explain your logic.

B) Draw the supply and demand for coats with a fairly flat demand curve and a fairly steep supply curve. Illustrate the effects of a tax on coats. What happens to the price the consumer pays, the price the producer receives, and the quantity sold? Who pays most of the tax? How can you tell?