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**Section I: Multiple Choice (1 point each)** Choose the one best answer from the choices provided and place the letter corresponding to that answer in the space provided to the left of the question number.

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<b>Hammers</b>	<b>300</b>	<b>280</b>	<b>240</b>	<b>180</b>	<b>100</b>	<b>0</b>
<b>Caramel</b>	<b>0</b>	<b>20</b>	<b>40</b>	<b>60</b>	<b>80</b>	<b>100</b>

- \_\_\_\_\_ 1. Using the above production possibilities table, what is the opportunity cost of hammers in terms of caramel when hammer production is increased from 100 to 180?
- 20.
  - 80.
  - 4.
  - 1/4.
- \_\_\_\_\_ 2. In economics, the term investment refers to
- the process of producing (or purchasing) capital goods.
  - putting money into a bank account.
  - the purchase of stocks and bonds.
  - all of the above.
- \_\_\_\_\_ 3. A concave production possibilities frontier
- will shift to the right if the unemployment rate decreases.
  - implies that the resources used in the production of the two concerned goods are perfectly interchangeable.
  - illustrates the law of increasing opportunity costs.
  - is described both "a" and "c".
- \_\_\_\_\_ 4. Which of the following **WILL** increase the demand for the normal good Chocodiles?
- An increase in the price of the **complement in consumption** milk.
  - A decrease in the price of Chocodiles.
  - An increase in money income.
  - All** of the above will increase the demand for Chocodiles.
- \_\_\_\_\_ 5. Which of the following would decrease the supply of a product?
- A decrease in the price of a complement in production.
  - A decrease in the price of the good.
  - A decrease in wages paid to workers who produce the product.
  - All of the above are correct.
- \_\_\_\_\_ 6. The demand curve for tacos (which are normal goods) has shifted to the right. Which of the following events could have caused this to happen?
- There has been a decrease in consumer income.
  - The price of tacos has decreased.
  - The price of cheeseburgers (a **substitute in consumption**) has increased.
  - The price of salsa (a **complement in consumption**) has increased.

**Section II Short Answer/Essay** Use the information provided to completely answer the following questions. Points as indicated.

1. Complete parts "a" through "d" regarding production possibilities. (7 points)
  - a. In the space provided below draw a PPF that shows the law of increasing opportunity cost, putting capital goods on the vertical axis and consumer goods on the horizontal axis.
  - b. Draw a point "b" on the above PPF that is currently unattainable for this economy
  - c. Show the effect on the PPF of the loss of natural resources in this nation. Label this new curve "c".
  - d. If constant opportunity cost applied, what shape would the above PPF be? What would this imply about the resources used in the production of capital goods and consumer goods? **Explain why this implication is (or is not) realistic.**

2. Explain the effect the following events would have on either the supply and/or the demand for a product (increase in demand or decrease in demand and/or increase in supply or decrease in supply). Also be sure to specify the effect of the change on both the equilibrium price of the good and the equilibrium quantity of the good. **Be sure to provide a brief verbal answer as well as a supply and demand graph for each one and show the change on the graph as well. (12 points)**
- a. A favorable change in tastes and preferences.
  - b. A decrease in subsidies on production of the product.
  - c. A decrease in the price of a **substitute in production**.
  - d. An increase in the price of a **complement in consumption**.
  - e. An increase in income (assume the product is an inferior good) **AND AT THE SAME TIME** an increase in the price of the resources used to make the product.