
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.

- _____ 1. What is the difference between a production possibilities curve (PPC) and a production possibilities frontier (PPF)?
- a. There is no difference, they are different terms for the same thing.
 - b. A PPF is concave and a PPC is always straight.
 - c. A PPF analyzes the ability to produce capital goods and a PPF analyzes the ability to produce consumer goods.
 - d. Both "b" and "c" are true.

Hammers	150	140	120	90	50	0
Taffy	0	20	40	60	80	100

- _____ 2. According to the above production possibilities table, what is the opportunity cost of producing hammers in terms of taffy, when hammer production is increased from 50 to 90?
- a. 20.
 - b. 40.
 - c. 1/2.
 - d. 2.
- _____ 3. In economics the term investment refers to
- a. the act of placing money in a savings account.
 - b. the act of purchasing government securities.
 - c. the process of purchasing or producing capital goods.
 - d. All of the above refer to investment in terms of economics.
- _____ 4. Which of the following is a normative economic statement?
- a. I think the unemployment rate is 5.8%.
 - b. The unemployment rate is too high.
 - c. The unemployment rate is rising.
 - d. Both "a" and "c" are correct.
- _____ 5. Which of the following would decrease the demand for an inferior good?
- a. A decrease in the price of the good
 - b. A decrease in income
 - c. An increase in income
 - d. Both "a" & "c" will decrease the demand for an inferior good
- _____ 6. An increase in the price of soda will result in a(n)
- a. increase in the supply of soda.
 - b. decrease in the demand for soda.
 - c. increase in the demand for iced tea (a substitute in consumption).
 - d. All of the above.

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 shows the economy currently has unemployed resources.
 - c. Show the effect on the PPF of a hurricane that destroys natural resources, capital goods, and creates human casualties. 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 or the demand for a product (increase or decrease in supply and/or demand). 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 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 wages paid to workers who produce the product.

c. A decrease in the price of a *complement in production*.

d. An increase in the price of a *complement in consumption*.

e. A favorable change in tastes and preferences **AND AT THE SAME TIME** an increase in taxes levied against producers of the product.