
SECTION I: Multiple Choice (2 points each) Choose the one best answer from the selections provided and place the letter corresponding to that answer in the space 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.
- _____ 2. An example of a positive economic statement would be
- a. 2.5% inflation is too low.
 - b. I think the unemployment rate is 9.7%.
 - c. The rate of inflation is -0.3%.
 - d. Both "b" and "c" are positive economic statements.
- _____ 3. The supply curve for tacos has shifted to the right. Which of the following events would have caused this to happen?
- a. There has been an increase in the number of taco producing firms.
 - b. The price of burritos, quesadillas, and all other "Mexican fast food" (***substitutes in production***) have increased.
 - c. The price of tacos has increased.
 - d. Both "a" and "c" are true.
- _____ 4. If an economy's unemployment rate increases
- a. the economy's PPF will shift to the right.
 - b. the economy's PPF will not move.
 - c. the economy's PPF will shift to the left.
 - d. the law of increasing opportunity cost will no longer apply.
- _____ 5. A surplus
- a. exists when quantity demanded is less than quantity supplied.
 - b. is caused when a price floor is placed below equilibrium price.
 - c. is caused when a price ceiling is placed above equilibrium price.
 - d. Both "a" and "b" are true.
- _____ 6. An economy can achieve a more rapid rate of economic growth
- a. by producing relatively more consumer goods than capital goods.
 - b. by banning productive technologies.
 - c. by producing relatively more capital goods than consumer goods.
 - d. by producing at a point that is outside of its current PPF.
- _____ 7. If a production possibilities frontier is straight
- a. the same nation's production possibilities curve must be concave.
 - b. the law of increasing opportunity cost applies.
 - c. the economy is experiencing unemployment.
 - d. resources used to produce capital goods and consumer goods are perfectly interchangeable.

- _____ 8. Entrepreneurship earns payments called _____ and land earns payments called _____.
a. wages; interest
b. profit; rent
c. interest; rent
d. interest; profit
- _____ 9. Which of the following will **NOT** change the demand for carrots?
a. A change in the price of the **substitute in consumption** potatoes.
b. A change in consumer incomes.
c. A change in the price of carrots.
d. All of the above **will** change the demand for carrots.
- _____ 10. When Donnie Baker decided to sell his boat he thought that he would make \$5,000 and use \$300 less in gas each summer. However, he also thought that he would not be able to spend as much time at the lake (because he would have no boat) and have to pay a lot of taxes on the sale of the boat. Which of the following is true of the above scenario?
a. Donnie used marginal analysis to make his decision.
b. Donnie felt that part of the marginal cost of his decision would be saving \$300 in gas money.
c. Donnie did not consider any of the marginal costs of the situation.
d. All of the above are true.
- _____ 11. If there is a surplus of a product, which of the following will eventually occur in a free market?
a. Price will increase and the surplus will go away as quantity demanded decreases and quantity supplied increases.
b. Demand will increase, supply will decrease, and equilibrium will be reached.
c. Price will decrease and the surplus will go away as quantity demanded increases and quantity supplied decreases.
d. Price floors will be instituted and the shortage will go away.
- _____ 12. Which of the following would decrease the demand for the inferior good Spam?
a. An increase in the price of Spam.
b. A decrease in consumer income.
c. An increase in consumer income.
d. Both "a" & "c" are true.
- _____ 13. The law of demand states that there is a(n)
a. direct relationship between price and quantity supplied.
b. inverse relationship between price and quantity demanded.
c. direct relationship between supply and demand.
d. no relationship between price and quantity supplied.
- _____ 14. Which of the following will decrease the demand for canned dog food?
a. An increase in the price of dog food
b. An increase in taxes on dog food production
c. A decrease in the price of dry dog food (**a substitute in consumption**)
d. Both "a" and "c" are true.

- _____ 15. The equilibrium price of a good decreased and the equilibrium quantity of the good increased. Which of the following would have caused this?
- An increase in supply
 - An increase in demand
 - A decrease in supply
 - A decrease in demand
- _____ 16. If the market for beef was initially in equilibrium, a decrease in the supply of turkey (which is a **substitute in consumption** to beef) would cause:
- the demand for beef to increase.
 - the supply of beef to decrease.
 - the supply of beef to increase.
 - the demand for beef to decrease.
- _____ 17. What will happen to the price of beef given the scenario in number 16 above?
- It will not change because there was no impact.
 - It will decrease.
 - It will increase.
 - It will be ambiguous depending on the magnitude of the shifts.
- _____ 18. When a PPF shifts to the left that means
- The economy has contracted.
 - The economy has grown.
 - The economy's unemployment rate has decreased.
 - The economy's unemployment rate has increased.
- _____ 19. Which of the following will **NOT** shift the market demand curve for bread to the right?
- A decrease in the price of bread.
 - A decrease in the price of complements in consumption for bread (peanut butter, ham, etc.).
 - A favorable change in tastes and preferences concerning bread.
 - All of the above will shift the market demand curve for bread to the right.
- _____ 20. If there is an increase in the price of a **substitute in consumption**
- supply will increase.
 - demand will increase.
 - supply will decrease.
 - demand will decrease.
- _____ 21. When a price ceiling is set below the equilibrium price
- the market is not affected.
 - a surplus results.
 - a shortage results.
 - price ceilings were abolished in accordance with the 1995 Normann-Smith Farm Subsidies Act.
- _____ 22. If an economy gains labor and capital resources
- its PPF will shift inward.
 - its PPF will shift outward.
 - the PPF will go from being concave to being straight.
 - the PPF will not shift.

- _____ 23. An increase in demand is represented on a graph by
- a. a leftward shift of the demand curve.
 - b. a movement up an existing demand curve.
 - c. a rightward shift of the demand curve.
 - d. a movement down an existing demand curve.
- _____ 24. If the supply of a good increases **AND AT THE SAME TIME** the demand for the good increases (but the increase in supply is of smaller magnitude than the increase in demand)
- a. price increases and quantity increases.
 - b. price decreases and quantity increases.
 - c. price and quantity stay the same.
 - d. price stays the same and quantity increases.
- _____ 25. The law of supply states that:
- a. price and quantity supplied are inversely related.
 - b. price and quantity supplied are directly related.
 - b. there is no relation between quantity supplied and price.
 - c. producers must allow consumers to return defective merchandise.

SECTION II Short Answer/Essay/Problems

Use the information provided to answer the following questions. Be sure to properly label any graphs. (Points as indicated)

1. Using supply and demand analysis, describe verbally and show graphically, the effects of the following independent events ("a" does not impact "b" or "c", etc.) on the market for the **NORMAL GOOD CHOCODILES**. Be sure to mention the effects on price and quantity, as well as supply and/or demand.
(15 points)
 - a. An article in *The New England Journal of Medicine* states that people who eat Chocodiles have higher stress and higher cholesterol than people who do not eat Chocodiles.
 - b. Taxes on Chocodile production are increased **AND AT THE SAME TIME** consumer incomes increase.
 - c. The wages paid to workers who produce Chocodiles decrease **AND AT THE SAME TIME** the price of milk (a **complement in consumption**) decreases.

2. In the space provided below draw a PPF that shows the law of increasing opportunity costs placing capital goods on the vertical axis and consumer goods on the horizontal axis, then use that graph to answer parts "a" through "c". Parts "d" through "f" do not rely on the PPF you draw. **(13 points)**
- a) Draw a point "a" on the above PPF that is currently unattainable for this economy.
- b) Draw a point "b" on the above PPF that shows this economy has unemployed resources.
- c) Draw two points on the above PPF that are both efficient and attainable. Label these points "c" and "d". Then in the space provided below, indicate which of the two points will allow for the more rapid rate of economic growth and explain why it allows for more rapid economic growth.
- d) If the above PPF had been straight, what would that have implied about the resources used in the production of capital goods and the production of consumer goods?
- e) State the Law of Increasing Opportunity Costs (don't describe the implication regarding the resources, state the Law).
- f) List three things that would cause the above PPF to shift to the right.

3. Use the following table to answer parts "A" through "D" below concerning the market for corn (quantities are stated in bushels). **These are independent questions, the information provided refers only to that one part of the question so forget part "c" ever happened when answering part "d".** (14 points)

Quantity Supplied	Price	Quantity Demanded
40,000	\$1.00	96,000
46,000	\$1.50	88,000
52,000	\$2.00	80,000
58,000	\$2.50	72,000
64,000	\$3.00	64,000
70,000	\$3.50	56,000
76,000	\$4.00	48,000

- A. What is the equilibrium price and quantity in the above market?

Equilibrium Price _____ Equilibrium Quantity _____

- B. At a price of \$4.00 what is true of this market? What will happen to price if market forces are allowed to work?

- C. If a decrease in subsidies causes farmers to be willing to sell 14,000 bushels less than before at each possible price, what will the equilibrium price and quantity be?

Equilibrium Price _____ Equilibrium Quantity _____

- D. If a population decrease caused consumers to purchase 28,000 bushels less than before at each possible price, what will the equilibrium price and quantity be?

Equilibrium Price _____ Equilibrium Quantity _____

4. In a well defined essay explain how minimum wage laws create unemployment. Be sure to do the following:
- Use a graph to support your answer.
 - Specify where (in relation to equilibrium) the minimum wage must be placed before it has this effect.
 - Specify what the economic term for a minimum wage law is.
 - Describe why/how the minimum wage law will create unemployment.

Write your answer in sentence/paragraph form, don't simply use bullet points to address these issues. (8 points)

-BONUS- [6 points]

Consider the following circumstance regarding two separate markets. One market is the market for **DVD players** and the other market is the market for **DVDs**. Assume that the price of the computer chips used in DVD player production decreases. What effect will that have on the market for DVD players (supply or demand, equilibrium quantity and equilibrium price)?

Now what effect will that event in the DVD player market have on the market for DVDs (supply or demand, equilibrium quantity and equilibrium price)?

Use one properly labeled graph for each market (2 graphs total).

You should describe your answer both graphically and verbally.