

1. Suppose Ecoland has the following production possibilities table:

<u># of guns</u>	<u>Pounds of butter</u>
50	0
40	5
30	10
20	15
10	20
0	25

a. Plot the production possibilities curve for the production of guns and butter. Put guns on the x axis and butter on the y axis

b. What is the opportunity cost of increasing the production of guns from 20 to 30? From 40 to 50?

c. Is the opportunity cost of producing guns constant or increasing?

d. What is the opportunity cost of increasing the production of butter from 10 to 15? From 20 to 25?

e. Is the opportunity cost of producing butter constant or increasing?

f. Given this production possibility curve, is producing 35 guns and 13 pounds of butter possible?

g. Is producing 25 guns and 7 pounds of butter possible? Is it efficient?

Multiple Choice Questions:

1. In the U.S. economy, who is in charge of organizing and coordinating overall economic activities?
 - a. government
 - b. corporations
 - c. the invisible hand
 - d. consumers

 2. In making decisions you should consider
 - a. marginal costs and marginal benefits
 - b. marginal costs and average benefits
 - c. average costs and average benefits
 - d. total costs and total benefits

 3. You bought stock A for \$10 and stock B for \$50. The price of each is currently \$20. Assuming no tax issues and you have no predictions for the future, which should you sell if you need money?
 - a. stock A
 - b. stock B
 - c. it doesn't matter
 - d. you should sell an equal amount of both

 4. The opportunity cost of reading chapter 1 of your text
 - a. is about 1/20 of the price you paid for the book because one chapter is about one twentieth of the book
 - b. zero since you have already paid for the book
 - c. has nothing to do with the price you paid for the book
 - d. is 1/20 the price of the book plus 1/20 the price of tuition

 5. The rationing devices that our society uses include
 - a. the invisible hand only
 - b. the invisible hand and invisible handshake only
 - c. the invisible hand and invisible foot only
 - d. the invisible hand, the invisible foot, and the invisible handshake

 6. Individuals are prohibited from practicing medicine without a license. This is an example of
 - a. the invisible hand
 - b. the invisible handshake
 - c. the invisible foot
 - d. the invisible brain
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Multiple Choice Questions:

1. For a capitalist free market to exist you must have
 - a. public property rights
 - b. private property rights
 - c. a combination of public and private property rights
 - d. coordination rights

 2. In a pure capitalist society, the concept of fairness embodied is
 - a. to each according to their needs; from each according to ability
 - b. to each according to their ability; from each according to need
 - c. them that works, gets; the that don't starve
 - d. everyone gets enough, but those who work harder get more

 3. In theory
 - a. socialism is an economic system that tries to organize society in the same ways as most families organize, striving to see that individuals get what they need.
 - b. an economic system based on central planning and government ownership of the means of production
 - c. socialism is an economic system based on private property rights
 - d. socialism is an economic system based on markets

 4. In capitalism, the "what to produce" decision is made by
 - a. what firms believe are socially beneficial
 - b. what firms believe people want and will make a profit to the firms
 - c. what the government believes people want and will make a profit for the government
 - d. what central planners believe is socially beneficial

 5. In Soviet style socialism, the "what to produce" decision is made by
 - a. what people want
 - b. what firms believe people want and will make a profit to the firms
 - c. what the government believes people want and will make a profit for the government
 - d. what central planners believe is socially beneficial

 6. In feudalism the most important invisible force was
 - a. the invisible hand
 - b. the invisible handshake
 - c. the invisible foot
 - d. the invisible brain
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7. In Mercantilism, the guiding invisible force was
 - a. the invisible hand
 - b. the invisible handshake
 - c. the invisible foot
 - d. the invisible brain

 8. Mercantilism evolved into capitalism because
 - a. government investments did not pan out
 - b. the industrial revolution undermined the craft guilds' mercantilist method of production
 - c. the guilds wanted more freedom
 - d. the serfs wanted more freedom

 9. The term laissez faire means
 - a. let the world go away
 - b. let events take their own course; leave them alone
 - c. let the government intercede
 - d. let there be a fair distribution of goods

 10. The U.S. economy today can best be described as
 - a. socialist
 - b. pure capitalist
 - c. welfare capitalist
 - d. feudalistic

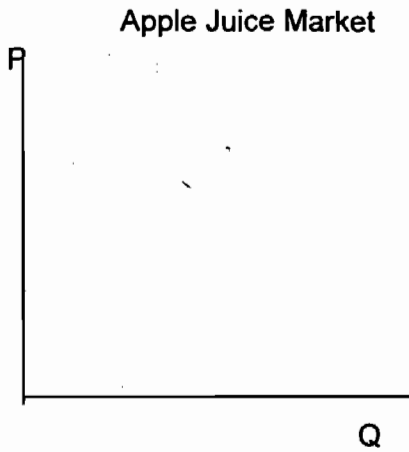
 11. An economic system works via
 - a. the invisible hand
 - b. the invisible hand and the invisible foot
 - c. the invisible hand and the invisible handshake
 - d. the invisible hand, invisible handshake and the invisible foot
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1. Consider the following information regarding the quantity of corn demanded and supplied per month at a number of prices.

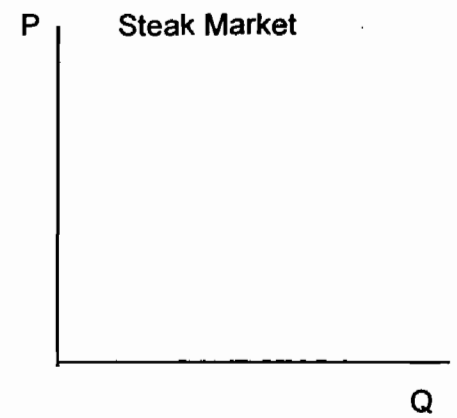
<u>Price per bushel</u>	<u>quantity demand</u>	<u>quantity supplied</u>
\$.40	39,000	83,000
\$.35	48,000	78,000
\$.30	58,000	74,000
\$.25	67,000	67,000
\$.20	75,000	62,000
\$.15	81,000	59,000

- a. What is the equilibrium price? What is the equilibrium quantity?
- b. Describe the situation when the price is at \$.40 per bushel and predict what will happen.
- c. Describe the situation when price is at \$.15 per bushel and predict what will happen.
- d. Explain what would happen if a serious transport strike reduced corn output supplied(at each price) by 30,000 bushels.

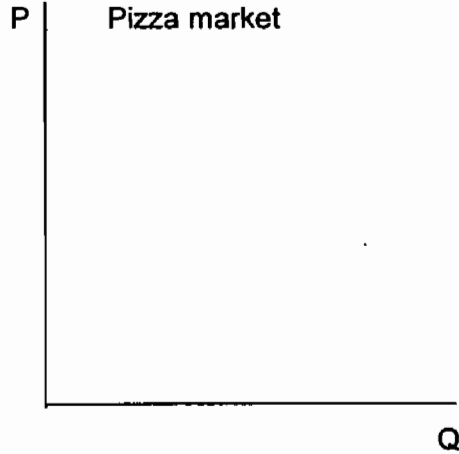
A freeze destroys Florida's orange crop. Show graphically what will happen to the equilibrium price and quantity of apple juice.



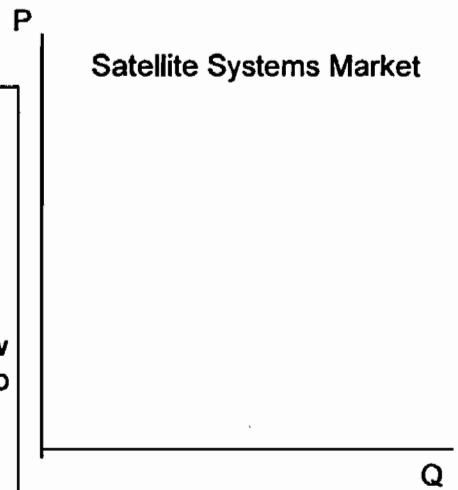
^{Consumers} consider steak to be a normal good. Show graphically what will happen to the equilibrium price and quantity of steak when consumer income increases.



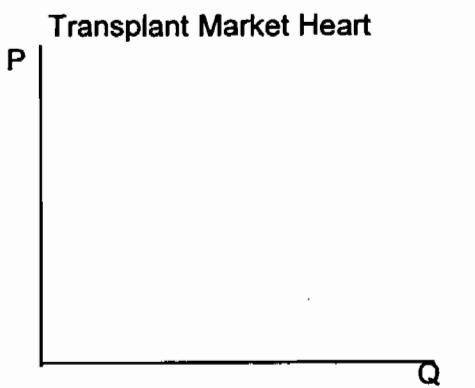
People's taste for pizza increases. At the same time, Pizza Hut builds several new restaurants. Show what will happen to equilibrium price and quantity of pizza.



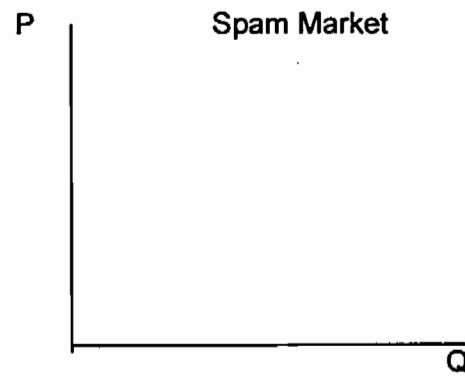
New technology improves production of home satellite dishes. At the same time, more people subscribe to cable TV. Show what will happen to equilibrium price and quantity of satellite systems.



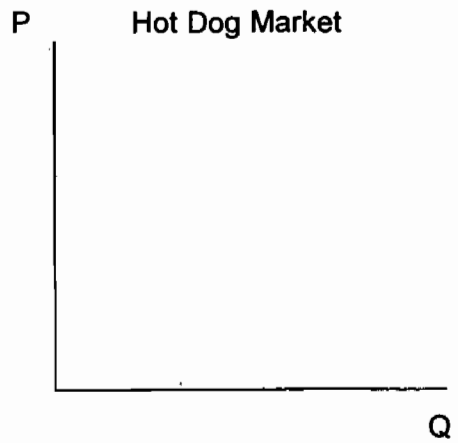
Economic stress causes more heart attacks. At the same time, more organ donors are living longer. Show what will happen to equilibrium price and quantity of heart transplants.



Consumers consider spam to be an inferior good. Show graphically what will happen to the equilibrium price and quantity of spam when consumer income decreases.



The price of hamburger falls. Show what will happen to equilibrium price and quantity of hot dogs.



New Federal regulations increase the cost of producing all types of meat. Show what will happen to the equilibrium price and quantity of hot dog buns

