

- Please read each question carefully. If you have any questions, please ask me to clarify.
- If the question says “list” that’s all you have to do.
- Please do not over-write. Most short answer questions can be answered in one sentence.

1. a. Define opportunity cost.

b. What is the opportunity cost of you attending college?

2. True or false (if you answer False, please correct the statement so that it is True).

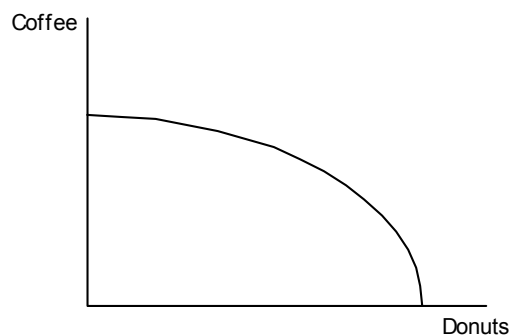
a. Economics is the study of how fairly goods and services are distributed within society.

b. Equity refers to the size of the economic pie, and efficiency refers to how the pie is divided.

c. A rational decision-maker takes an action if and only if the marginal benefit exceeds the marginal cost.

3. What do the two “loops” in the Circular Flow Diagram represent?

4. The PPF below shows the production possibilities for Coffee and Donuts.



a. Draw a point that is Efficient, label it E.

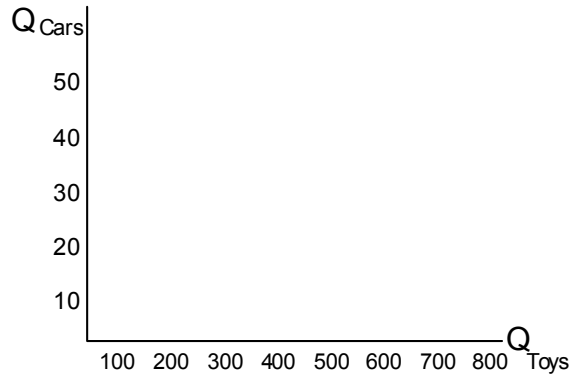
b. Draw a point that is Inefficient, label it I

c. Draw a point that is Unattainable, label it U.

d. Change the PPF to show a case where the weather for growing coffee beans is perfect.

5. The table below show the production possibilities for Toyland. Use the information to answer the questions below.

| Cars | Toys |
|------|------|
| 50   | 0    |
| 40   | 250  |
| 30   | 450  |
| 20   | 600  |
| 10   | 700  |
| 0    | 750  |

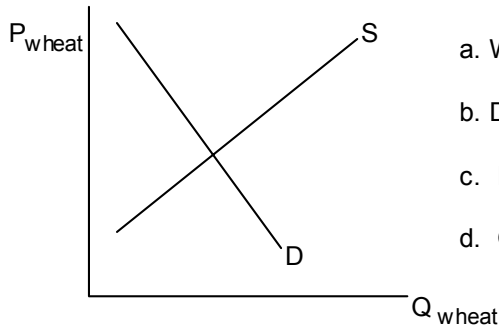


- a. Draw the PPF for Toyland.
  - b. What is the opportunity cost to Toyland of increasing the production of cars from 10 to 20?
  - c. What is the opportunity cost of increasing the production from 30 to 40?
  - d. Does Toyland exhibit increasing, decreasing or constant opportunity costs? How can you tell?
6. Identify whether each of the following statements are Positive or Normative. (Circle one.)
- |  |                      |
|--|----------------------|
| a. The minimum wage creates unemployment.                | Positive   Normative |
| b. Inflation is worse for society than unemployment.     | Positive   Normative |
| c. If interest rates increase, investment will decrease. | Positive   Normative |
7. a. List the five factors that influence demand.
- b. List the four factors that influence supply.

8. For each of the following situations in the wheat market, answer sub-questions a through d by circling the correct answer. **Please be sure to also show any shifts on the diagram.**

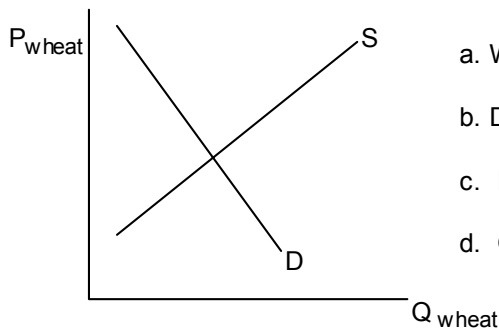
- a. does supply or demand shift?
- b. HOW does that curve shift?
- c. How does the Equilibrium **Price** change?
- d. How does the Equilibrium **Quantity** change?

a. Consumer incomes rise.



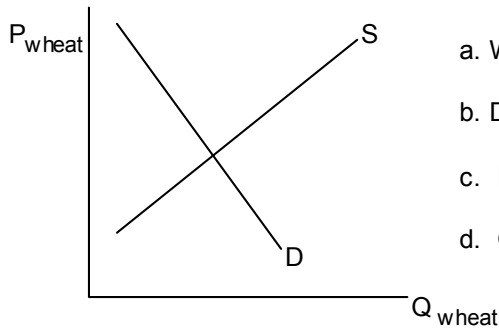
- a. Which shifts? Demand or Supply or Both?
- b. Does it (do they) . . . Increase or Decrease?
- c. Price. . . Increases or Decreases or No Change?
- d. Quantity. . . Increases or Decreases or No Change?

b. The cost of fertilizer increases.



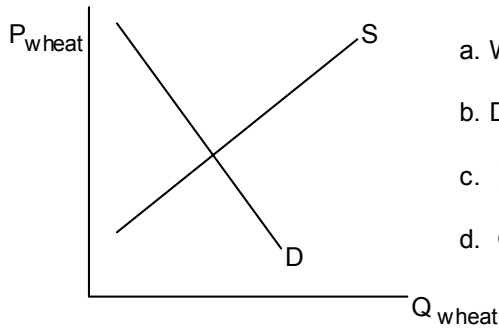
- a. Which shifts? Demand or Supply or Both?
- b. Does it (do they) . . . Increase or Decrease?
- c. Price. . . Increases or Decreases or No Change?
- d. Quantity. . . Increases or Decreases or No Change?

c. The number of wheat farmers falls, ceteris paribus.



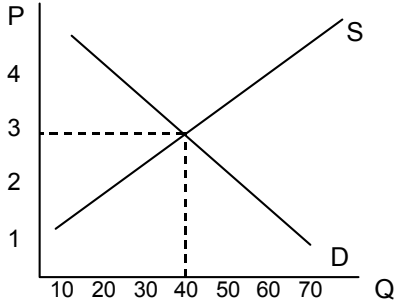
- a. Which shifts? Demand or Supply or Both?
- b. Does it (do they) . . . Increase or Decrease?
- c. Price. . . Increases or Decreases or No Change?
- d. Quantity. . . Increases or Decreases or No Change?

d. Science determines that eating wheat causes high blood pressure.



- a. Which shifts? Demand or Supply or Both?
- b. Does it (do they) . . . Increase or Decrease?
- c. Price. . . Increases or Decreases or No Change?
- d. Quantity. . . Increases or Decreases or No Change?

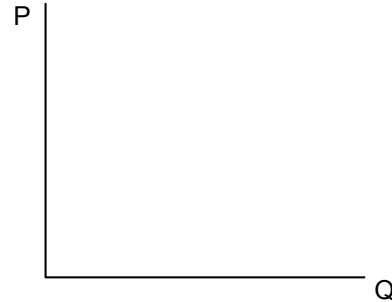
9. Given the graph below,



a. At what prices will a surplus exist?

b. At what prices will a shortage exist?

10. a. Draw a supply and demand diagram for French bread on the axes to the right. Clearly label the consumer surplus and producer surplus in that diagram. Is there any deadweight loss?



b. Now suppose that the demand for French bread rises. Show this change on your supply and demand diagram, and clearly label the new levels of consumer and producer surplus.

c. Does producer surplus **increase** or **decrease**, or can we **not tell**? (Circle one answer.)

11. Pizza in the dorm: There are six friends who have the following “willingness to pay” for pizza:  
 David REALLY wants pizza and will give the \$20 that his Grandma sent him in the mail to get a pie.  
 Mary would go in with David to get a second pizza, but only has \$9 to her name.  
 Sam will join the group, but having just eaten, is only willing to shell out \$4.  
 Angie has money, and would prefer sushi, but she’ll give \$3 to the cause. . .to “hang out” with friends  
 Tom & Jerry are dirt cheap. They each find \$1.50 looking in pockets, under couch cushions, and at the bottom of the washing machine, and would put that whole amount towards pizza if that would get them just as much as everyone else.

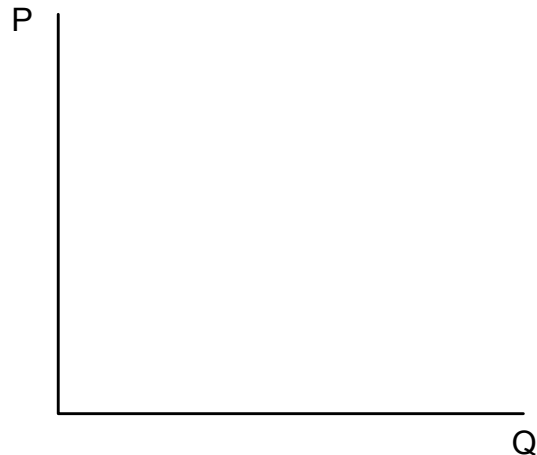
a. **Draw the demand curve for pizza** using the information given above.

b. If these students could find pizzas for \$3 each,

i) **how many** would be sold? \_\_\_\_\_

ii) **who would get pizzas?**

and iii) what would be the total amount of **consumer surplus?** \_\_\_\_\_



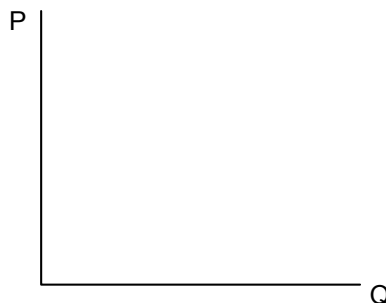
- 11 (continued) Suppose that four pizza places are willing to offer pizza at the following prices:  
 Papa John's will sell 2 pizzas for \$7 each.  
 Gino's will deliver only 1 at a price of \$9 and a second for \$15.  
 Domino's has no specials, and will sell a single pizza for \$15  
 Pizza Hut comes onto campus with one pizza for \$4

- c. **Draw the supply curve for pizza** on the same set of axes as part a.  
 d. What is the **equilibrium price and quantity** of pizza sold in the market?  
 e. In equilibrium, **which firms will sell the pizza?**  
 f. What is the total amount of **producer surplus** in this market for pizza?

12. a. What is the equation for the price elasticity of demand?

- b. When is a good considered as having an inelastic demand? Be as specific as possible.

- c. Draw two different demand curves on the axes to the right. Draw one that is elastic and the other that is inelastic. Be sure to label each as "elastic" or "inelastic."



- d. Which good would have a more elastic demand—beer (in general) or Budweiser? Why?

13. Use the data in the demand schedule below to answer the following questions. Use the midpoint method for all elasticity calculations.

| Price | Quantity Demanded<br>(Income=\$50,000) | Quantity Demanded<br>(Income=\$60,000) |
|-------|--|--|
| \$20  | 24                                     | 34                                     |
| 40    | 20                                     | 30                                     |
| 60    | 16                                     | 26                                     |
| 80    | 12                                     | 22                                     |
| 100   | 8                                      | 18                                     |
| 120   | 4                                      | 14                                     |

- a. What is the price elasticity of demand for this good when its price falls from \$40 to \$20 and the person's income is \$50,000? Show your work!

b. What is the income elasticity of demand when the price of the good is \$60 and the consumer's income rises from \$50,000 to \$60,000? Show your work!

c. Is this good a normal or inferior good? How can you tell?

14. If a good has an inelastic demand, should you **increase price** or **decrease price** to increase total revenue? (Circle one.)

15. The following table summarizes the market for Principles of Economics textbooks.

| Price | Quantity Demanded | Quantity Supplied |
|-------|-------------------|-------------------|
| \$40  | 2100              | 100               |
| \$50  | 1100              | 300               |
| \$60  | 600               | 600               |
| \$70  | 350               | 1000              |
| \$80  | 225               | 1500              |



a. What is the market (equilibrium) price and quantity of textbooks sold?

In order to quell outrage over tuition increases, the college places a \$50 limit on the price of textbooks.

b. Is this a **price ceiling** or a **price floor**? (Circle one.)

c. How many textbooks will be sold now?

c. While the price limit is still in effect, automated publishing and e-books decreases the cost of textbook production. What effect might this have on the market for textbooks? Use a diagram to support your answer (you may not want to do actual prices and quantities, but do it in a more abstract way.)