

Homework 1
Due on May 24th, 06

1. Which of the following is *not* an example of resources?
 - a. the land on which a production facility is located
 - b. the services of a supervisor
 - c. the training that the worker receives on the job
 - d. the foregone income the worker could have earned by taking a different job**
 - e. long-lasting tools such as buildings and machinery

2. Economics is
 - a. only applicable to individuals below the poverty line
 - b. used only by businesses
 - c. applicable to everyone regardless of income**
 - d. never applicable to the wealthy such as Bill Gates
 - e. relevant only when scarcity has been eliminated

3. During a campaign speech a candidate for public office promises to meet every individual's every need. The candidate is ignoring the concept of
 - a. scarcity**
 - b. inflation
 - c. money supply
 - d. election rules
 - e. overpopulation

4. Which of the following is a result of scarcity?
 - a. a local government outlawing gas-powered lawn mowers
 - b. low voter turnouts in a local election
 - c. morally challenged political candidates
 - d. a local government making the choice between a new school and a new library**
 - e. inflation

5. Suppose you decide to open an Internet-based business in your home. This business requires a computer in order to sell your items. The computer would be an example of
 - a. human capital
 - b. labor
 - c. entrepreneurship
 - d. intellectual property
 - e. physical capital**

6. Which of the following combinations accurately represents the three main categories of resources?
 - a. land, raw materials and money
 - b. human capital, physical capital and money
 - c. land, labor and capital**
 - d. raw materials, capital and money
 - e. labor, money and raw materials

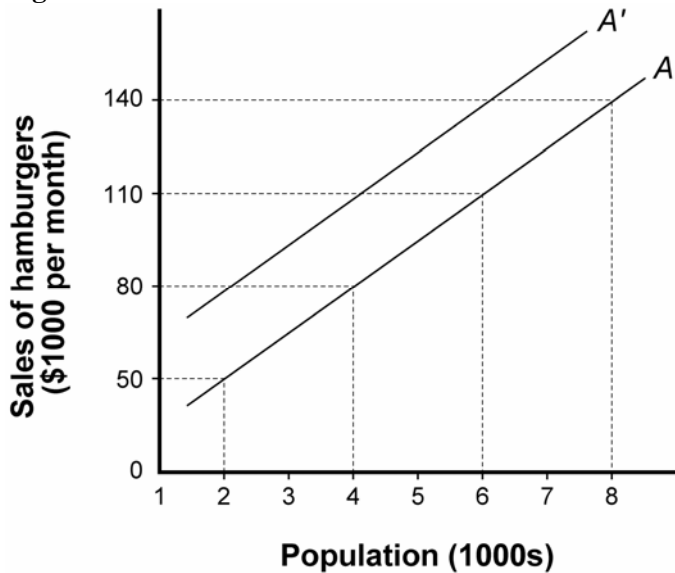
Homework 1
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7. Microeconomics deals with which of the following?
 - a. the behavior of the price level for a given nation
 - b. how government regulators would interact with a given firm**
 - c. how tax cuts affect GDP
 - d. the measurement of the nation's unemployment rate
 - e. how the Federal Reserve conducts monetary policy

8. Macroeconomics is the study of
 - a. how prices are determined in a specific product market
 - b. what is occurring in the economy as a whole**
 - c. which goods and services individual consumers purchase
 - d. how to avoid scarcity
 - e. how automobile producers determine the prices of their various models

9. Positive statements are statements that
 - a. reflect a person's morals and values
 - b. can never be verified by observation
 - c. are always opinions
 - d. can be verified by observation**
 - e. always true

Figure 1A

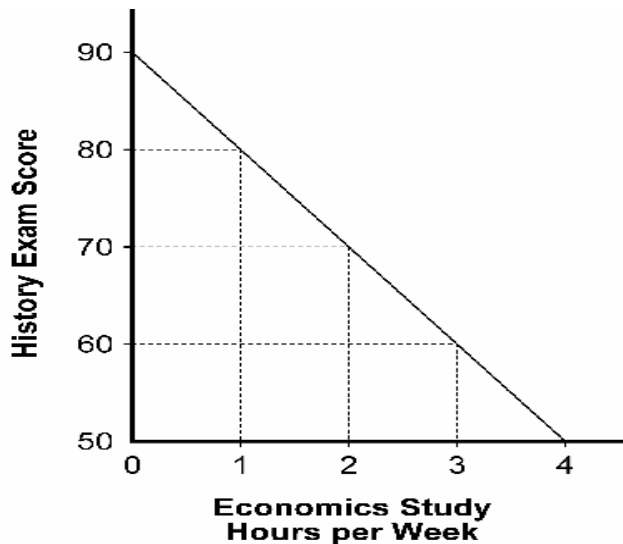


10. In Figure 1A, the slope of line A is
 - a. 30
 - b. -1/15
 - c. 1/15
 - d. -15
 - e. 15**

Homework 1
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11. If the line in Figure 1A shifts from A to A', which of the following is *not* a possible cause?
- an increase in population**
 - a decrease in the price of hamburgers
 - a government study demonstrates the benefits of eating hamburgers
 - an increase in the price of hot dogs
 - none of the above
12. Suppose line A in Figure 1A suddenly became flatter. What would happen to the numerical value of the slope?
- It would become negative.
 - It would become smaller.**
 - It would become larger.
 - It would become zero.
 - It would not change.
13. Suppose you have the choice of consuming 2 oranges, 3 apples, or 2 bananas. The opportunity cost of consuming the 2 bananas is
- 2 oranges
 - 3 apples
 - 1/2 of an orange
 - 2 oranges or 3 apples, whichever you prefer**
 - 1/3 of an apple
14. Suppose a parent is thinking of attending his or her daughter's last day of school pizza party. The parent currently earns \$19 an hour and will have to take two hours off work to attend. The cost of admission to the party is \$5. The total cost of attending the pizza party is
- \$5
 - \$23
 - \$43**
 - \$33
 - \$38
15. There is always an opportunity cost associated with any action because
- explicit cost is always present
 - implicit cost is never present
 - resources are scarce**
 - monetary costs are usually greater than implicit costs
 - opportunity costs are normally greater than monetary costs
16. Which of the following reasons would most likely explain why a wealthy family flies rather than drives to get to their favorite vacation spot?
- Driving imposes pollution on other drivers.
 - Time is valuable and driving involves large time costs.**
 - The opportunity cost of driving is low.
 - The out of pocket cost of driving is low.
 - The explicit costs of flying are smaller than those of driving.

Homework 1
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17.

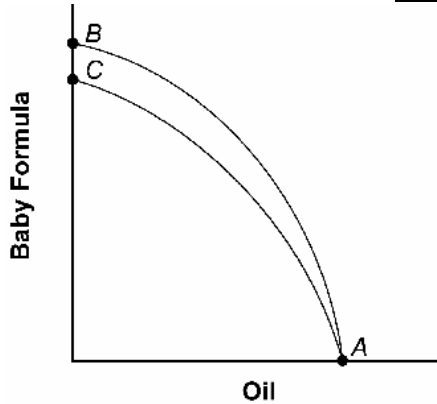
The above figure illustrates the trade-off for a student who is current taking an economics class and a history class. The graph shows that the opportunity cost of studying another hour of economics is

- a. 40 points on the history exam
- b. 4 hours economics study time
- c. 10 points on the history exam**
- d. 1 point on the history exam
- e. 90 points on the history exam

18. What is the difference between points that lie inside a production possibilities frontier and those that lie on the outside of it?

- a. Those on the outside are feasible but inefficient while those on the inside are not feasible.
- b. Those on the inside are not feasible but efficient while those on the outside are not feasible and inefficient.
- c. Those on the inside are feasible and efficient while those on the outside are not feasible.
- d. Those on the inside are feasible and inefficient while those on the outside are not feasible.**
- e. Those on the outside are feasible and efficient while those on the inside are not feasible.

Homework 1
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19. Which of the following would explain the shift of the production possibilities frontier from AB to AC in the figure above?
- an improvement in the technology of producing oil
 - an earthquake in the major oil production city
 - an improvement in the technology of producing baby formula
 - an improvement in technology across all sectors
 - a hurricane in the area of the country that is responsible for most of the baby formula production (Notice the change is from AB to AC not AC to AB)**
20. Jessica can groom the dog in 30 minutes and do the grocery shopping in 40 minutes. Jeff can groom the dog in 20 minutes and do the grocery shopping in 60 minutes. Jessica's opportunity cost of grooming the dog is
- $\frac{4}{3}$ of a shopping trip
 - $\frac{3}{4}$ of a shopping trip**
 - 1 shopping trip
 - $\frac{2}{3}$ of a shopping trip
 - $\frac{3}{2}$ of a shopping trip
21. Why is it difficult for a command economy to allocate resources?
- Prices allocate resources for the central planners.
 - Self-interest drives all decision-making.
 - Prices are not used to determine resource allocation.**
 - Central planners know exactly what consumers want.
 - Market signals are used by the central planners.
22. An economic system in which resources are owned by the market but allocated by the state is called
- market capitalism
 - centrally planned capitalism**
 - centrally planned socialism
 - market socialism
 - a traditional economy

Homework 1
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23. Hall and Liberman , page 50

Under Problems and exercise , Question number 5

[suppose that one day, Gilligan.....]

(a) Labor requirements for Berries and Fish

	Labor required for	
	1 Cup of Berries	1Fish
Maryanne	.5 hour	1 hour
Gilligan	.5 hour	15 mnts

(b) Maryanne has a competitive advantage in picking berries, since her opportunity cost of picking berries is lower than Gilligan's. Her opportunity cost of picking 1 cup of Berries is $\frac{1}{2}$ of a fish, while his opportunity cost of picking 1 cup of berries is 2 fish. Gilligan has a competitive advantage in fishing , since his opportunity cost of fishing is lower than Maryanne's. His opportunity cost of catching 1 fish is $\frac{1}{2}$ cup of berries, while her opportunity cost of catching 1 fish is 2 cups of berries .When the castaways discover each other Maryanne should specialize in picking berries and Gilligan should specialize in fishing.

(c) Assume that before they found each other , each castaways work 12 hours each day and they divided work time equally between picking berries and catching fish. Then their total production would be

	Cup of Berries	Number of Fish
Maryanne	12	6
Gilligan	12	24
Total	24	30

After specializing their total production would be

	Cup of Berries	Number of Fish
Maryanne	24	0
Gilligan	0	48
Total	24	48

Specifically there are 18 more fishes available to be divided between them. Both castaways can benefit from Gilligan's new abilities.