Choose the single best answer for each question. Do all of your scratch-work in the side and bottom margins of pages.

1. When a society cannot produce all of the goods and services people wish to have, the economy is experiencing
   a. scarcity.
   b. surpluses.
   c. inefficiencies.
   d. inequalities.

2. When calculating the opportunity cost of attending college, which of the following should you probably not include?
   a. tuition.
   b. the cost of textbooks required for college classes.
   c. the income you would have earned had you not gone to college.
   d. rent for your off-campus apartment.

3. Tom is restoring a car and has already spent $3500 on the restoration. If he were to spend an additional $2000 on the restoration effort, he would be able to sell the car for $5000. On the other hand, he could sell the car now, in its present condition, for $2800. What should he do?
   a. He should sell the car now for $2800.
   b. He should complete the extra work at an additional cost of $2000 and sell the car for $5000.
   c. Either a or b, because his marginal costs and benefits are the same in either case.
   d. Either a or b, because he's going to end up losing money either way.

4. In a zero sum game,
   a. all players will break even.
   b. the winners' gains are less than the losers' losses.
   c. the winners' gains are exactly equal to the losers' losses.
   d. all players can come out ahead.

5. When the country of Bluffistan pursues "protectionist" trade policies, its objective is to protect
   a. consumers in Bluffistan from high prices charged by foreign firms.
   b. firms in other countries from taxes on their products sold in Bluffistan.
   c. consumers in other countries from low quality products produced in Bluffistan.
   d. firms in Bluffistan from competition with firms in other countries.
6. Which of the following statements about models is correct?
   a. Models are built with assumptions that simplify reality in the interest of tractability.
   b. The quality of a model is judged by the accuracy of its predictions.
   * Both a and b are true.
   d. Neither a nor b is true.

7. Normative statements
   a. can be tested, and proved right or wrong, by appeal to the facts and the data.
   b. contradict established fact.
   c. are irrelevant for policy-making.
   * involve value judgments.

8. Which of the following is an example of a positive statement?
   a. Reducing tax rates on the wealthy would benefit the nation.
   b. The social security system is a good system and it deserves to be preserved as it is.
   c. America would be a better place if the distribution of wealth were more equal.
   * A decrease in the minimum wage would reduce unemployment.

9. Production possibilities frontiers are usually "bowed outward." This is because
   a. the more resources an economy uses to produce one good, the fewer resources it has
      available to produce another good.
   b. the opportunity cost of a good tends to decrease as more of that good is produced.
   * resources are specialized; that is, some resources are better-suited to making particular
      goods rather than other goods.
   d. None of the above.

10. Farmer Schultz can allocate her resources between production of two outputs: corn and soybeans. Given the nature of her resources (crop land, machinery, her skill at farming, etc.) her opportunity cost of soybeans is constant at 2 bushels of corn per bushel of soybeans. Her maximum possible production of corn is 40,000 bushels. Which of the following output combinations is on her production possibilities frontier?
    * 32,000 bushels of corn, 4,000 bushels of soybeans.
    b. 20,000 bushels of corn, 15,000 bushels of soybeans.
    c. 10,000 bushels of corn, 12,000 bushels of soybeans.
    d. None of the above.

11. Bob and Dave are castaways on a tropical island. They each allocate their time to two activities that produce food needed for survival: fishing and banana-picking. Each of them has a fish/banana production possibility frontier that is a straight line. If neither individual has a comparative advantage in either activity, it must be that their production possibility frontiers
    a. are identical.
    * have the same slope.
    c. have different slopes.
    d. None of the above. (It is not possible that neither has a comparative advantage in either activity.)
12. If labor in Mexico is less productive than labor in the U.S. in all areas of production, then
a. neither nation can benefit as a result of trade with each other.
b. Mexico can benefit through trade with the U.S. but the U.S. cannot benefit through trade with Mexico.
c. the U.S. will have a comparative advantage relative to Mexico in all areas of production.
* both Mexico and the U.S. can still benefit through trade with each other.

Questions 13 through 16 are based on the following information. Two small countries, Ida and Sac, use their labor resources to produce goods of two types: manufactured goods and agricultural goods. The table below gives the number of hours of labor needed to produce one unit of each type of good in each country.

<table>
<thead>
<tr>
<th></th>
<th>Hours need to produce one unit of manufactured goods</th>
<th>Hours need to produce one unit of agricultural goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ida</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Sac</td>
<td>4</td>
<td>0.5</td>
</tr>
</tbody>
</table>

13. The resource cost of one unit of manufactured goods in Sac is
a. 4 units of agricultural goods.
b. 0.5 units of agricultural goods.
* 4 hours.
d. 0.5 hours.

14. The opportunity cost of one unit of agricultural goods in Ida is
a. 2 hours.
b. 3 hours.
c. 1/2 unit of manufactured goods.
* none of the above.

15. Which of the following is true?
a. Ida has the absolute advantage in the production of manufactured goods.
b. Sac has the comparative advantage in the production of manufactured goods.
* Sac has the absolute advantage in the production of agricultural goods.
d. None of the above is true.

16. Suppose that there is an international market in which manufactured goods and agricultural goods can be traded. If the trade price of one unit of manufactured goods is 7 units of agricultural goods,
a. both countries would want to buy manufactured goods.
b. both countries would want to buy agricultural goods.
c. Ida would want to buy manufactured goods and Sac would want to buy agricultural goods.
* Sac would want to buy manufactured goods and Ida would want to buy agricultural goods.
Questions 17, 18, 19, 20, and 21 refer to the following graph of supply and demand curves for a competitive market.

17. At a price of $p_2$, the quantity demanded is
   a. $Q_1$.
   * $Q_2$.
   c. $Q_3$.
   d. $Q_4$.

18. Equilibrium price and quantity in this market are
   a. $p_1$ and $Q_1$.
   b. $p_2$ and $Q_2$.
   c. $p_2$ and $Q_4$.
   * $p_3$ and $Q_3$.

19. At a price of $p_1$, there would be
   * excess supply in quantity $Q_5 - Q_1$.
   b. excess demand in quantity $Q_5 - Q_1$.
   c. excess supply in quantity $Q_5 - Q_3$.
   d. excess demand in quantity $Q_3 - Q_1$.

20. A change in equilibrium to price $p_2$ and quantity $Q_4$ would require
   * an increase in demand.
   b. an increase in supply.
   c. a decrease in demand.
   d. a decrease in supply.

21. A change in equilibrium price to $p_1$ with no change in equilibrium quantity would require
   a. increases in both demand and supply.
   b. decreases in both demand and supply.
   * an increase in demand and a decrease in supply.
   d. an increase in supply and a decrease in demand.
22. Which of the following is a determinant of the quantity demanded of a good?
   a. the prices of raw materials used to make the good.
   b. the wage paid to the workers who make the good.
   *. the price of the good itself.
   d. all of the above.

23. If Barney's income increases, we would expect his demand for
   a. both normal and inferior goods to increase.
   b. both normal and inferior goods to decrease.
   *. normal goods to increase and his demand for inferior goods to decrease.
   d. normal goods to decrease and his demand for inferior goods to increase.

24. Which of the following is most likely to be a pair of substitute goods?
   a. peanut butter and jelly.
   b. hot dogs and hot dog buns.
   c. televisions and subscriptions to cable television services.
   *. laptop computers and desktop computers.

25. Which of the following would cause the demand curve for a normal good to shift to
   the right?
   a. a decrease in income.
   b. a decrease in the good's own price.
   c. a decrease in the price of a substitute.
   *. a decrease in the price of a complement.

26. What would be the effect on the competitive market for traditional film cameras of a
decrease in the price of digital cameras (a substitute for film cameras)? The equilibrium
   price of film cameras would
   a. increase and the equilibrium quantity would increase.
   b. increase and the equilibrium quantity would decrease.
   c. decrease and the equilibrium quantity would increase.
   *. decrease and the equilibrium quantity would decrease.

27. Gold jewelry is a normal good. If the price of gold increases and, simultaneously,
average household income increases, what effect would these changes have on the
   competitive market for gold jewelry? The equilibrium price of gold jewelry would
   *. increase and the equilibrium quantity would either increase, decrease, or stay the same.
   b. decrease and the equilibrium quantity would either increase, decrease, or stay the same.
   c. either increase, decrease, or stay the same, and the equilibrium quantity would increase.
   d. either increase, decrease, or stay the same, and the equilibrium quantity would decrease.
28. In a competitive market, which of the following would definitely result in a decrease in equilibrium price while allowing the possibility that equilibrium quantity could increase, could decrease, or could remain unchanged?
   a. increases in supply and demand.
   b. decreases in supply and demand.
   c. an increase in demand and a decrease in supply.
   * an increase in supply and a decrease in demand.

29. Which of the following would cause equilibrium price to fall in the competitive market for oranges?
   a. An unexpected freeze in the orange-growing regions of Florida leads to a sharp decrease in the supply of oranges.
   b. The workers who pick oranges form a union and negotiate an increase in their wages.
   c. A new medical study discovers that the health benefits of eating oranges are even greater than previously thought.
   *. None of the above.

30. The price of a substitute for widgets decreases and, simultaneously, a technological innovation lowers the cost of widget production. What will be the impact on the competitive market for widgets? The equilibrium price of widgets will
   a. increase and the equilibrium quantity of widgets will either increase, decrease, or stay the same.
   *. decrease and the equilibrium quantity of widgets will either increase, decrease, or stay the same.
   c. either increase, decrease, or stay the same, and the equilibrium quantity of widgets will increase.
   d. either increase, decrease, or stay the same, and the equilibrium quantity of widgets will decrease.