ANSWER SHEET

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9. __________
10. __________
Part II  

Essay/Analysis

1. Draw two pictures—one of a typical short-run supply curve, the other a typical long-run supply curve. Show the impact of an identical price disturbance (change) in each picture. Carefully describe in words what’s going on and why.

2. Apply your best economic analysis to the statement: “Seat belts save lives.”
3. When an economy is on its production possibilities curve, its resources are fully and efficiently employed. Why then would it ever be the case that a movement along the curve (which destroys some jobs) would be desirable?

4. The price of water has increased over the last decade in southern California. Some say this price increase is primarily due to the influx of rich people who build swimming pools along with their new homes; an alternative explanation focuses on the weather and chronic drought conditions. How would you sort this out to determine the primary explanation of the water price increase?

Please sign the following: I have neither given nor received unauthorized aid on this piece of work nor have I knowingly tolerated any violation of the honor code.
MULTIPLE CHOICE.

1. Why would an economist say that the Ford Motor Company has never made a choice or a decision?
   a. Economists often want to deny the facts.
   b. Ford doesn't make choices - only the U.S. automobile industry does.
   c. Non-economists often need to be reminded that individuals within an organization, rather than the organization itself, make choices.
   d. Economists are strange creatures who only wish impress others with outrageous or ridiculous claims.

2. Which of the following is most important for the successful functioning of any economy?
   a. clearly understood and generally accepted rules
   b. common and reasonably specific goals for people to pursue
   c. greed
   d. low taxes relative to income
   e. sufficient purchasing power to buy everything that is produced

3. What is an efficient way to study for an economics exam?
   a. Attend every lecture and take copious notes.
   b. Read the assigned material once before each class and once after.
   c. Form study sessions with others in class.
   d. Put off everything and instead cram the night before the exam.
   e. Any of the above might be efficient, depending on one's perceived costs and benefits.

4. If Croatian firms can make 600 pitchforks or 100 hammers in a week and Slovenian firms can make 200 pitchforks or 200 hammers in a week, then
   a. Croatia has a comparative advantage in hammers.
   b. Slovenia has a comparative advantage in hammers.
   c. Slovenia has a comparative advantage in pitchforks.
   d. Slovenia has a comparative advantage in neither hammers nor pitchforks.

5. Suppose the price of skateboards were to sharply fall. Other things constant, what is the LEAST LIKELY to occur?
   a. More skateboards will be purchased.
   b. The demand for skateboards will increase.
   c. More helmets will be purchased.
   d. The demand for helmets will increase.

6. The price elasticity of demand is measured as
   a. the ratio of the typical consumer's quantity demanded to the entire quantity demanded in the market.
   b. the percentage change in quantity demanded divided by the percentage change in price.
   c. the number of purchases divided by the price of the product.
   d. price divided by quantity.
   e. quantity divided by price.

7. A seller who continues to earn the same gross revenue from sales whether she raises or lowers her prices faces a demand curve that
   a. contradicts the law of demand.
   b. is completely elastic.
   c. is completely inelastic.
   d. is unit elastic.
   e. is vertical.
8. The cost to a cab driver of taking the day off increases when
   a. it rains.
   b. more cabs enter the business.
   c. the price of gasoline rises.
   d. the weather is so pleasant everyone prefers to walk.
   e. there are lots of other cabs out on the streets.

9. The rules of the National Collegiate Athletic Association (NCAA) that limit the amount of money
    colleges can offer to athletes
   a. assure balanced competition on collegiate athletic fields.
   b. maintain high ethical standards in college sports.
   c. preserve the spirit of amateurism in an age of professionalism.
   d. prevent competition for star athletes from raising the price of enrolling them.
   e. prevent the schools with the most profitable athletic programs from attracting more than their
      share of the best athletes.

10. Which is the fundamental fact that makes rationing necessary in a social system?
    a. competition
    b. scarcity
    c. selfishness
    d. shortages
MULTIPLE CHOICE.
1. c
2. a
3. e
4. b
5. b
6. b
7. d
8. a
9. d
10. b