

Problems:

Table 1:

	Labor Hours needed to make one		Amount produced in 90 hours:	
	Quilt	Dress	Quilts	Dresses
Helen	50	10	1.8	9
Carolyn	90	45	1	2

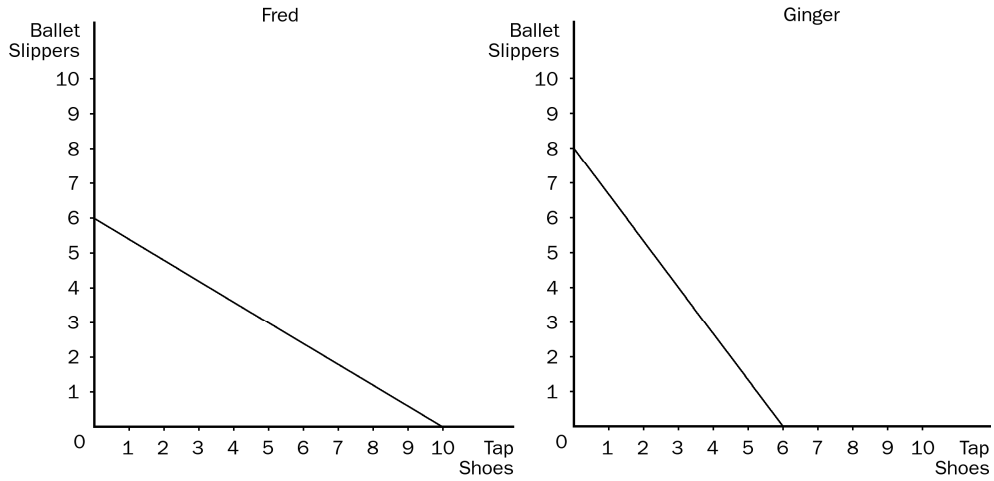
1. **Refer to Table 1.** For Carolyn, the opportunity cost of 1 quilt is
 - a. 0.5 dresses.
 - b. 1 dress.
 - c. 2 dresses.
 - d. 3 dresses.

2. **Refer to Table 1.** For Carolyn, the opportunity cost of 1 dress is
 - a. 5 quilts.
 - b. 4 quilts.
 - c. 1/2 quilt.
 - d. 1/10 quilt.

3. **Refer to Table 1.** Helen has an absolute advantage in
 - a. dresses and Carolyn has an absolute advantage in quilts.
 - b. quilts and Carolyn has a comparative advantage in dresses.
 - c. both goods and Carolyn has a comparative advantage in quilts.
 - d. neither good and Carolyn has a comparative advantage in dresses.

4. **Refer to Table 1.** We could use the information in the table to draw a production possibilities frontier for Helen and a second production possibilities frontier for Carolyn. If we were to do this, measuring quilts along the horizontal axis, then
 - a. the slope of Helen's production possibilities frontier would be -0.2 and the slope of Carolyn's production possibilities frontier would be -0.5.
 - b. the slope of Helen's production possibilities frontier would be -5 and the slope of Carolyn's production possibilities frontier would be -2.
 - c. the slope of Helen's production possibilities frontier would be 0.2 and the slope of Carolyn's production possibilities frontier would be 0.5.
 - d. the slope of Helen's production possibilities frontier would be 5 and the slope of Carolyn's production possibilities frontier would be 2.

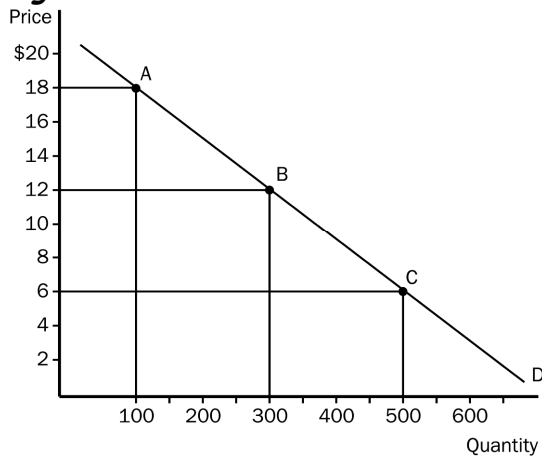
Figure 1.



5. Refer to Figure 1. The opportunity cost of 1 pair of tap shoes for Fred is
- 1/3 pair of ballet slippers.
 - 1/5 pair of ballet slippers.
 - 3/5 pair of ballet slippers.
 - 5/3 pairs of ballet slippers.
6. Refer to Figure 1. The opportunity cost of 1 pair of ballet slippers for Ginger is
- 1/4 pair of tap shoes.
 - 1/3 pair of tap shoes.
 - 3/4 pair of tap shoes.
 - 4/3 pairs of tap shoes.
7. Refer to Figure 1. Fred would incur an opportunity cost of 3 ballet slippers if he
- increased his production of tap shoes by 4.
 - increased his production of tap shoes by 5.
 - decreased his production of tap shoes by 4.
 - increased the time he spends on the two activities from 40 hours to 50 hours.

8. **Refer to Figure 1.** Ginger has an absolute advantage in
- ballet slippers and Fred has an absolute advantage in tap shoes.
 - tap shoes and Fred has an absolute advantage in ballet slippers.
 - neither good and Fred has an absolute advantage in both goods.
 - both goods and Fred has an absolute advantage in neither good.
9. **Refer to Figure 1.** Ginger has an absolute advantage in
- tap shoes and Fred has a comparative advantage in ballet slippers.
 - both goods and Fred has a comparative advantage in neither good.
 - ballet slippers and Fred has a comparative advantage in tap shoes.
 - neither good and Fred has a comparative advantage in both goods.
10. **Refer to Figure 1.** In order to maximize total output,
- Ginger should specialize in tap shoes and Fred should specialize in ballet slippers.
 - Ginger should specialize in both goods and Fred should specialize in neither good.
 - Ginger should specialize in ballet slippers and Fred should specialize in tap shoes.
 - Ginger should specialize in neither good and Fred should specialize in both goods.
11. **Refer to Figure 1.** Suppose Fred specializes in the good in which he has a comparative advantage, and Ginger specializes in the good in which she has a comparative advantage. Then
- total production of ballet slippers would be 6 and total production of tap shoes would be 6.
 - total production of ballet slippers would be 8 and total production of tap shoes would be 6.
 - total production of ballet slippers would be 8 and total production of tap shoes would be 8.
 - total production of ballet slippers would be 8 and total production of tap shoes would be 10.
12. If the price elasticity of demand for a good is 0.94, then which of the following events is consistent with a 4 percent decrease in the quantity of the good demanded?
- a 0.235 percent increase in the price of the good
 - a 2.350 percent increase in the price of the good
 - a 3.760 percent increase in the price of the good
 - a 4.255 percent increase in the price of the good

Figure 2



13. Refer to Figure 2. The price elasticity of demand between point A and point B, using the midpoint method, is
- 1.
 - 1.5.
 - 2.
 - 2.5.
14. When the local used bookstore prices economics books at \$15.00 each, they generally sell 70 books per month. If they lower the price to \$7.00, sales increase to 90 books per month. Given this information, we know that the price elasticity of demand for economics books is about
- 2.91, and an increase in price from \$7.00 to \$15.00 results in an increase in total revenue.
 - 2.91, and an increase in price from \$7.00 to \$15.00 results in a decrease in total revenue.
 - 0.34, and an increase in price from \$7.00 to \$15.00 results in an increase in total revenue.
 - 0.34, and an increase in price from \$7.00 to \$15.00 results in a decrease in total revenue.

Definitions:

Chapter 1:

- Efficiency
- Opportunity cost
- Market failure
- Productivity
- Externality
- 10 principles of economics

Chapter 2:

- Circular Flow Diagram (Decision-makers, markets, flow of inputs and outputs, flow of dollars, factors of production)
- Production Possibilities Frontier (How to draw production possibilities frontier; efficient, impossible and inefficient production possibilities, shift of production possibilities frontier)
- Microeconomics vs. Macroeconomics
- Positive vs. Normative Statements

Chapter 3:

- Interdependence
- Absolute advantage
- Comparative advantage
- Specialization
- Imports vs. Exports
- Trade and gains from trade

Chapter 4:

- Market
- Competitive market
- Law of demand and supply
- Law of supply
- Quantity demanded
- Quantity supplied
- Movement along demand curve (downward vs. upward)
- Shift of demand curve (right vs. left)
- Movement along supply curve (downward vs. upward)
- Shift of supply curve (right vs. left)
- Demand curve and schedule
- Supply curve and schedule
- Substitutes vs. Complements
- Normal Good
- Inferior Good
- Luxury Good
- Demand shifters (5 of them)
- Supply Shifters (4 of them)

- Market Demand vs. Individual Demand
- Market Supply vs. Individual Supply
- Shortage
- Surplus
- Equilibrium price and quantity
- Graphical demonstration of shift, movement along curves...etc.

Chapter 5:

- Elasticity
- Price elasticity of demand
- Price elasticity of supply
- Income elasticity of demand
- Cross-price elasticity
- Total Revenue
- Determinants of price elasticity of demand
- Determinants of price elasticity of supply
- Midpoint method
- Types of demand and supply curves (Elastic, Unit Elastic, Inelastic, Perfectly Elastic, Perfectly Inelastic)

Answers:

- 1-c 8-a
 2-c 9-c
 3-c 10-c
 4-b 11-d
 5-c 12-d
 6-c 13-d
 7-b 14-c