1. Which of the following best illustrates the “invisible hand” as described in this course?
   a. Paul is in the roofing business. He is out for money and doesn’t really care about his customers. Paul offers his customers a 5 year warranty and low prices just so he can get their business.
   b. Dani wants to feel good about herself. She gives money to a charity that preserves natural areas even though she never visits those areas.
   c. Sammy doesn’t care at all about the Salvation Army (a charity). However, in order to lower his tax bill, Sammy gives his old car to the Salvation Army.
   d. The government provides unemployment insurance to those who lose their jobs. Although this is intended to help society, it also discourages production and reduces average living standards.

2. Which of the following is a “market failure” as discussed in this course.
   a. George values vacations more than he does a nice house. George accordingly spends a lot of his money on vacations. His house is significantly smaller than any of his friends’ houses.
   b. Many restaurants do not charge the same price for every meal. For the same item, lunch time prices are generally lower than supper time prices.
   c. Firms which offer lower quality goods and/or higher prices are typically driven out of business by better performing firms.
   d. In many cases firms can pollute without have to compensate anyone for the hurt they cause.

3. Which of the following is a “market failure” as discussed in this course.
   a. In 1995 Bob was the first computer graphic designer ever in Sandpoint, Idaho. His profits were very high. Since then, competitors have entered the market driving down the price and Bob’s profits.
   b. The city of Scottsbluff licenses only one cab company to serve its airport. Since the company has no competition, it charges much more for cab rides than the average for the nation.
   c. Paula is a chemical engineer working for Texaco. British petroleum offers her more money and hires her away from Texaco.

4. Anh’s goal is to make money. She is a sales representative for economics textbooks. Her degree, however, is in marketing, not economics. If she had a degree in economics, she would be able to sell more textbooks. According to the decision making rules discussed in class:
   a. Anh should definitely go back to school and get her degree in economics.
   b. Anh should go back to school if the benefits of doing so outweigh her total opportunity cost.
   c. Anh should definitely not go back to school for her degree in economics. By doing so, she would incur an opportunity cost.
   d. Anh should go back to school if the total opportunity cost is greater than the explicit dollar costs.
5. **True (A) or False (B):** The best test of a theory is whether or not if fits the data that was available when the theory was first made.
   a. True  b. False

6. You were planning to go to a party this Friday. It was your best option at the time. However, your friend just called offering free tickets, including valet parking, to the *Insane Membranes* concert. If you go, **what best describes your opportunity cost of going to the concert?** Assume you cannot re-sell the tickets.
   a. How much you think, prior to going, you will enjoy the concert, minus how much you actually enjoy the concert.
   b. How much you actually enjoy the concert, minus how much you thought, prior to going, you would enjoy it.
   c. How much you enjoy the concert minus what the tickets could have sold for.
   d. How much you would have enjoyed the party.
   e. How much you enjoy the concert minus how much you would have enjoyed the party.

7. Currently, the German government plans to reduce the benefits it gives to the unemployed. Supporters of this plan argue that it will increase incentives to find jobs and result in lower unemployment. Opponents argue that it will leave many Germans with little or no means of support. Which of the following does this best illustrate?
   a. In debates, one side typically takes a normative approach and the other a positive approach.
   b. Opportunity costs usually does not play a role in political decisions.
   c. Many decisions involve a tradeoff between efficiency and equity.
   d. Government intervention always makes markets function poorly.

8. The state of Colorado wants to encourage people to buy low flush toilets. From an economic perspective, which of the following will likely be the most effective at getting people to do this?
   a. Allowing retailers to sell low flush toilets 7 days week, but only to sell high flush toilets 3 days a week.
   b. Offering a rebate (or subsidy) for low flush toilets and placing a tax on other toilets.
   c. Printing and displaying posters showing how much water a low flush toilet uses (1.6 gallons per flush) versus how much a high flush toilet uses (3 gallons per flush).
   d. Having the government take over all sales of toilets.

9. In the circular flow model, businesses (i.e. firms) are:
   a. either buyers or sellers depending on the market
   b. always buyers
   c. always sellers

10. Mary and Katie are both married to spouses who make $50,000 per year. Mary and Katie are also both relatively traditional (archaic) in that they plan to do much more childcare than their husbands. Mary has a masters degree in petroleum engineering. Katie only has a high school education. For whom are the opportunity costs of having likely children higher?
    a. Mary
    b. It depends on how much each one values children.
    c. Katie
11. Sheila buys tickets to a Lyle Lovett concert for $70. Sheila is willing to part with the tickets for anything over $80. Bob has good information regarding the quality of the concert and is interested in going to the concert. Sheila sells Bob the tickets. Which of the following is likely true?
   a. Bob (the buyer) was likely made worse off by the trade.
   b. Bob (the buyer) necessarily gains if he pays less than $80. He loses if he pays more than $80.
   c. Bob (the buyer) likely gained from the deal.

12. At right you are given a firm’s production costs as a function of how many kayak tours it offers per day. What is the marginal cost of producing the 4th kayak tour?
   a. $15
   b. $20
   c. $80
   d. $320
   e. none of the above

<table>
<thead>
<tr>
<th># of tours per day</th>
<th>Total costs/day</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>$170</td>
</tr>
<tr>
<td>1</td>
<td>$200</td>
</tr>
<tr>
<td>2</td>
<td>$230</td>
</tr>
<tr>
<td>3</td>
<td>$270</td>
</tr>
<tr>
<td>4</td>
<td>$320</td>
</tr>
<tr>
<td>5</td>
<td>$390</td>
</tr>
</tbody>
</table>

13. Consider the figures below. Which of the following best represents a country for which the unemployment rate has risen from 6% unemployment to 9% unemployment over a period of 3 months? Fundamental incentives to work and hire have not changed, only the actual amount of labor hired.

14. Consider the figures below. Which of the following best represents an economy in which, during a recent war, large numbers of bridges, power lines, and other infrastructure were destroyed by precision guided munitions? Assume no one lost their lives or jobs during this war.

**Figures for #’s 13 - 14**

a. New Capital
   - PPF
   - 2
   - 1

b. New Capital
   - PPF
   - 1
   - 2

- PPF
   - 2
   - 1

- PPF
   - 1
   - 2

- PPF
   - 1
   - 2

- PPF
   - 2
   - 1
15. Which of the PPFs below illustrates a country for which the opportunity cost of shirts wine increases as more wine is produced?

16. Which of the following PPFs illustrates a country in which resources are not all identical?

![Figures for #’s 16 - 17](image)

17. Dr. Lovett quits his job at TCU and becomes a TV psychic. He predicts the following:

<table>
<thead>
<tr>
<th>Year</th>
<th>Economic Condition</th>
<th>What’s happening?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>2018</td>
<td>Severe Recession Massive Govt. defense build-up. Defense spending rises from 5% to 15% of GDP.</td>
</tr>
<tr>
<td>b.</td>
<td>2043</td>
<td>At/near capacity Massive Govt. defense build-up. Defense spending rises from 5% to 15% of GDP.</td>
</tr>
</tbody>
</table>

In which year is private sector production most likely to fall because of the government build-up?  
**a.** 2018  
**b.** 2043

18. Consider the figures below. Which of the following best represent what has happened to the U.S. economy over the past 4 years? Don’t worry about the scale. Only look at the direction of the changes.

![Figures for #’s 16 - 17](image)
19. How do economists typically try to test whether a theory is correct?
   a. They conduct controlled experiments in laboratories.
   b. They use computer simulations based on known models of human behavior to generate data which can be tested.
   c. They take whatever data the real world gives them and subject it to statistical analysis.
   d. They use “field surveys” to determine what a majority of economist think about an issue.
   e. They throw bones into a turtle shell and read the signs.

20. Greg is an economist. He writes a policy paper for a Washington, DC “Think Tank”. In it he strongly recommends increasing the inheritance tax. He argues; “While this may reduce incentives to save for the future, the U.S. will be a much fairer country. It is the right thing to do.” What type of analysis is Greg doing?
   d. Rastafarian   e. Stochastic

21. Julian is an economist. He examines existing data to estimate how airline passengers react to increases in airfares. He estimates that each 1% increase in airfares decreases the number of tickets sold by 0.6%. What type of analysis is Julian conducting?
   d. Rastafarian   e. Stochastic

22. Jonsey has always wanted to fly. He spends $12,000 learning to fly and getting his pilot’s license. What is his opportunity cost of learning to fly?
   a. $12,000
   b. $12,000 plus books, transportation, and other expenses he incurred to go to flight school.
   c. $12,000 plus books, transportation, and other expenses he incurred to go to flight school, and whatever else he would have done with the all the time he spent learning to fly.
   d. $12,000 minus the money he can make by using his new license.

23. Technological innovations have come at an ever-increasing pace. In the next 50 years the world economy will likely be able to produce many times, per capita, what it can produce today. This increase in per capita production will likely:
   a. cause population to increase more than production and actually decrease standards of living.
   b. raise material standards of living, but not eliminate scarcity (as defined in this course).
   c. raise material standards of living, and eliminate scarcity (as defined in this course).

24. Who first coined the term “invisible hand”?
   d. Adam Smith   e. Leon Walras

25. In class, it was argued that free trade:
   a. hinders competition between firms. Consumers benefit from cheaper products and better quality.
   b. hinders competition between firms. Large firms drive out small firms. The consumer is left with fewer choices and higher prices.
   c. promotes greater competition between firms. Consumers benefit from cheaper products and better quality.
   d. promotes greater competition between firms. The consumer is left with fewer choices and higher prices.
26. Robinson and Friday are trapped on a desert island. Robinson is less competent at everything than Friday. It takes Robinson $3\frac{1}{2}$ times as long to catch fish as Friday. It takes Robinson 2 times as long as Friday to weave a shirt. Which of the following is true?
   a. Neither party can gain from specialization and trade.
   b. Robinson can gain from specialization and trade, but Friday cannot.
   c. Friday can gain from specialization and trade, but Robinson cannot.
   d. Both parties can gain from specialization and trade if Robinson produces fish and Friday shirts.
   e. Both parties can gain from specialization and trade if Robinson produces shirts and Friday fish.

Answer #s 27–30 based on the PPF’s below. Assume a 2 nation, 2 good world.

27. If Persia and Greece are the only 2 countries trading, and both wish to gain from trade, which of the following is true?
   a. Persia should specialize in the production of horses and Greece in the production of wheat.
   b. Persia should specialize in the production of wheat and Greece in the production of horses.
   c. Persia should produce both wheat and horses and not trade with Greece.
   d. The countries should not trade with each other. It is impossible for them to both gain from trade.
   e. More information, in particular the price of each good in each country before trade, is needed to answer this.
28. If Persia and Greece are the only 2 countries trading, what is a terms of trade at which both Persia and Greece can gain?
   a. 12 wheat for 1 horse.  
   b. 20 wheat for 1 horse.  
   c. 12 horses for 1 wheat.  
   d. 20 horses for 1 wheat.  
   e. none of the above

29. Which combination is possible, given the PPFs, and represents both nations gaining from trade?
   b. Persia exports 650 wheat & imports 50 horses. Greece imports 600 wheat & exports 50 horses.  
   c. Persia imports 800 wheat & exports 40 horses. Greece exports 800 wheat & imports 40 horses.  
   d. Persia exports 800 wheat & imports 40 horses. Greece imports 800 wheat & exports 40 horses.  
   e. none of the above

30. Which combination is possible, given the PPFs, and represents both nations gaining from trade?
   a. Persia imports 400 wheat & exports 80 horses. Greece exports 400 wheat & imports 80 horses.  
   b. Persia exports 400 wheat & imports 80 horses. Greece imports 400 wheat & exports 80 horses.  
   d. Persia exports 480 wheat & imports 40 horses. Greece imports 480 wheat & exports 40 horses.  
   e. none of the above

31 – 32: Assume it takes Egypt 10 hours of labor to produce a shirt and 60 hours to raise a cow. It takes Kush 3 hours of labor to produce a shirt and 45 hours to raise a cow.

31. If Egypt and Kush are the only 2 countries trading, and both wish to gain from trade, which of the following is true?
   a. Egypt should specialize in the production of cattle and Kush in the production of shirts.  
   b. Egypt should specialize in the production of shirts and Kush in the production of cattle.  
   c. Egypt should produce both shirts and cattle and not trade with Kush.  
   d. The countries should not trade with each other. It is impossible for them to both gain.  
   e. More information, in particular the price of each good in each country before trade, is needed to answer this.

32. If Egypt and Kush are the only 2 countries trading, what is a terms of trade at which both Egypt and Kush can gain?
   a. 10 cows for 1 shirt.  
   b. 6 cows for 1 shirt.  
   c. 10 shirt for 1 cow.  
   d. 2.5 shirts for 1 cow.  
   e. none of the above

33. Which of the following is an argument against free trade presented in your text and/or lecture?
   a. The bargaining chip argument. Credible threats to restrict trade by the U.S. may actually encourage other nations to trade freely with the U.S.  
   b. While free trade benefits most consumers, most producers and workers are hurt by free trade.  
   c. While free trade benefits most producers and workers, most consumers are hurt by free trade.  
   d. With free trade, costs of production, not what a nation wants to consume, dictates what is produced. Consumers may end up with lots of goods they don’t want.
34. Who developed the theory of Comparative Advantage?
   d. Adam Smith          e. Leon Walras

35. Which of the following is a critique of the “infant industry” argument?
   a. Global markets often give rise to firms who specialty is buying up other firms. Such “baby-naping” results in less continuity for the consumer.
   b. Firms that are protected from foreign trade until they “mature”, seldom actually do mature. They usually remain inefficient requiring permanent protection to survive.
   c. Relying on foreign countries for necessities like infant formula may seem dangerous. However, as long as several countries can supply it, one will always have a source of supply.
   d. Relying on foreign countries for necessities like infant formula may seem dangerous. However, there are always substitutes for infant formula.

36. According to the theory presented in this course, output per worker hour by itself:
   a. does not determine what a nation should produce if it wishes to gain from trade.
      It also does not determine a nation’s standard of living.
   b. does determine what a nation should produce if it wishes to gain from trade.
      It does not, however, determine a nation’s standard of living.
   c. does not determine what a nation should produce if it wishes to gain from trade.
      It does, however, largely determine a nation’s standard of living.
   d. determines what a nation should produce if it wishes to gain from trade.
      It also largely determines a nation’s standard of living.

37 - 38. Use the data below to answer #’s 37 – 38. You may not need all the data.

<table>
<thead>
<tr>
<th></th>
<th>Rest of World</th>
<th>Country Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption/GDP</td>
<td>80%</td>
<td>60%</td>
</tr>
<tr>
<td>Productivity</td>
<td>4 socks</td>
<td>6 socks</td>
</tr>
<tr>
<td></td>
<td>worker hr</td>
<td>worker hr</td>
</tr>
<tr>
<td>Average Wage in</td>
<td>$6.00</td>
<td>?</td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assume the following:
- Both nations measure everything the same way.
- All socks are of the same quality
- Manufactured goods are freely traded and that transportation costs are irrelevant.
- Companies are free to set up manufacturing plants wherever they wish.
- Wages in the rest of world will not change.

37. What is a likely wage for manufacturing jobs in country Z?
   a. $3.00          b. $4.50          c. $6.00
   d. $9.00          e. $12.00

38. What are the unit labor costs, for sock production, in the rest of the world?
   a. $1.50/sock  b. $4.00/sock  c. $4.80/sock
   d. $6.00/sock  e. none of the above