1. _____ Which of the following best defines “marginal analysis”?
   a. Only what is stated to change, changes.
   b. Stay factual. Don’t introduce value judgments yet.
   c. People are self-centered.
   d. Make decisions by considering incremental changes.
   e. Scarcity is always present.
   f. Applying value judgments is the ultimate goal.

2. _____ Monica quit her $47,000/year job as an analyst at Burlington Northern to start her own consulting business. The work hours, stress, and work environment are about the same as before. Her business has the following dollar costs.

<table>
<thead>
<tr>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental of Office Space: $10,000</td>
</tr>
<tr>
<td>Utilities: $ 3,000</td>
</tr>
<tr>
<td>Office Supplies: $ 4,000</td>
</tr>
<tr>
<td>Office Assistant’s pay: $14,000</td>
</tr>
<tr>
<td>Total: $31,000</td>
</tr>
</tbody>
</table>

   Which best describes the $ value of the opportunity costs of running her business?
   Use the definition we learned in this course.
   a. $100,000
   b. $ 78,000
   c. $ 61,000
   d. $ 31,000
   e. $ 14,000
   f. It depends on what her revenues are.

3. (6 pts) Congratulations! All your hard work has paid off. You’ve just gotten a job as a staffer in the United Nations Development Program. Your boss has prepared a report forecasting how certain changes will affect birth rates. Your job is to deliver it to UN General Assembly. Unfortunately, your dog, Kofi, ate part of the report. Use the knowledge you acquired in this course and save the day. Fill in the spaces below with Increase, Decrease, or Be Unaffected. Don’t worry about the magnitude of the change, only the direction. The 1st one has been done for you.

<table>
<thead>
<tr>
<th>Event</th>
<th>Predicted result</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCU’s board of Regents decides to change the school colors from purple to lime green. Dogs still can’t tell the difference.</td>
<td>Mandigo’s birthrate is predicted to Be Unaffected</td>
</tr>
<tr>
<td>Mandingo’s government has just started a Social Security type system. Mandigan citizens are confident that this system will help provide for them in their old age.</td>
<td>Mandigo’s birthrate is predicted to</td>
</tr>
<tr>
<td>The Mandigan religious interpretations changes so that it is now very taboo for women to have as much education as men.</td>
<td>Mandigo’s birthrate is predicted to</td>
</tr>
<tr>
<td>The number of Mandigans working on family farms is falling. The number working in information technology jobs is rising.</td>
<td>Mandigo’s birthrate is predicted to</td>
</tr>
</tbody>
</table>
4. ___________ Al’s Boat Company (ABC) has the following costs based on the number of boats he produces per month. For example, if he produces 0 boats, his costs are $3,000 (rent, etc.). If he produces 3 boats he pays $20,000 in costs. **What is the marginal cost of producing the 4th boat?**

<table>
<thead>
<tr>
<th># of Boats</th>
<th>Total Costs Incurred by ABC</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>$  3,000</td>
</tr>
<tr>
<td>1</td>
<td>$  5,000</td>
</tr>
<tr>
<td>2</td>
<td>$  8,000</td>
</tr>
<tr>
<td>3</td>
<td>$13,000</td>
</tr>
<tr>
<td>4</td>
<td>$20,000</td>
</tr>
<tr>
<td>5</td>
<td>$26,000</td>
</tr>
</tbody>
</table>

5. _____ Bob already has contracts to produce and sell 3 boats this month for $6,500 each. Mr. Green offers to buy a boat, the fourth boat, for $6,500 this month. Mr. Green’s offer is for this month only. Should Bob, if his goal is to make as much profits as possible, produce the 4th boat and sell it for $6,500?
   a. No
   b. Yes
   c. Bob should be indifferent between producing and not producing the boat.

6- 7. Below are excerpts of a paper from a prestigious economist at the Collidge Institute. Indicate whether the following statements are Lexigraphic, Monographic, Normative, Oviparous, or Positive.

6. _____ Rebuilding Iraq is worth the costs even at $200 billion over the next 3 years. Failure to do so would mean the U.S. has abandoned the moral obligation to the Iraq people it incurred by going to war against Iraq.

7. _____ Rebuilding Iraq will likely cost the United States $200 billion over the next 3 years. If government borrows to get this money, U.S. interest rates will rise by 0.5%.

41 8. _____ Which of the following is likely the most effective way of eliminating scarcity, as defined in this course, that Palestine faces today?
   a. Introducing a “rule of law”, including good protection of private property, in Palestine.
   b. All of the above could potentially eliminate scarcity in Palestine.
   c. Eliminating barriers to trade between Palestine and other nations.
   d. Ensuring that, on average, women have equal access to education as do men.
   e. None of the above. Scarcity will likely always be present unless human nature changes.

42 9. _____ Which of the following is the best example of capital as referred to in the circular flow model?
   a. people
   b. a laser printer
   c. dividends paid to the owner of a stock
   d. money a business raises by selling stocks
   e. the laws and social norms of a nation
10. Which of the following best illustrates the “Invisible Hand”?
   a. Humankind’s “moral check”. The tendency of people to “put themselves in others shoes” and limit the harm they cause others.
   b. Regulations and other government actions which impose costs on the economy in ways that are not highly visible.
   c. Businesses, being greedy and desirous of other people’s money, produce goods which consumers want at prices benefiting consumers.
   d. The imaginary force helping nations choose the terms of trade at which they trade with each other.

11. It’s 2023 and Wanda Womack is the richest person in the world. She made her money in the personal, pocket, automobile industry. Your daughter states; “That Wanda! The billions she made came through dealings she had with her workers and consumers. She gained at the expense of the little guy. Society would have been better off without her.” According to what was learned in class:
   a. The answer depends on whether or not each of the parties (ex. Wanda and her workers) has a comparative advantage in something traded.
   b. Your daughter is essentially correct. However, any statement that one group’s losses outweighs another’s gain involves a value judgment.
   c. Your daughter is likely incorrect. Both parties usually benefit from voluntary dealings such as that between employer and employee or buyer and seller.
   d. Your daughter should be sent away to military school.

12. Which of the following best defines “ceteris paribus”?
   a. Only what is stated to change, changes.
   b. Stay factual. Don’t introduce value judgments yet.
   c. People are self-centered.
   d. Make decisions by considering incremental changes.
   e. Scarcity is always present.
   f. Applying value judgments is the ultimate goal.

13. Which of the following best describes an “externality”?
   a. A belly button which sticks out.
   b. Gains from trading with other nations (or people).
   c. A situation in which one person’s actions affect a bystander.
   d. A situation in which government intervenes in the private sector.
   e. A situation in which one’s values, not factual evidence, dominate decision making.

14. Yowza! Parthia’s private sector is using resources in ways which the vast majority of Parthians think are not the best. Too many resources go to activities which pollute the environment. Too few resources go to preserving natural areas? What is this mis-allocation of resources called?
   a. information asymmetries
   b. an unavoidable consequence of scarcity
   c. a market failure
   d. comparative disadvantage
   e. marginalism

15. (8 pts) Indicate (✓) which of the following is a “lesson” illustrated by the circular flow diagram. You can check as many blanks (or one, or none) as you wish.
   ____ If more money is printed, it will result in more of both production income.
   ____ If more money is printed, it will result in more production but not more income.
   ____ A nation’s income is equal to value of what it produces.
   ____ Households are always the buyers in every market.
's 19 – 21: Use the figures below to answer the questions. Your answers are not exhaustive. You can use each answer (ex. a) multiple times.

19. _____ During the middle 1990’s the U.S. unemployment rate remained roughly constant. Other measures such as office space vacancies also remained relatively constant. At the same time, production in the U.S. increased greatly. Which of the above graphs best illustrate this?

20. _____ During the Great Depression, production decreased greatly in the U.S. The Unemployment rate rose from 3.2% to 25.2%. Which of the above graphs best illustrate this?

21. _____ President (formerly General) Eisenhower once stated; “Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those are cold and are not clothed. This world in arms is not spending money alone. It is spending the sweat of its laborers, the genius of its scientists …”  ” Which of the above graphs best illustrate Eisenhower’s quote?

22. _____ It’s 2008 and President Schwarzenegger and Vice President Ventura are considering a large increase in government spending. In which situation would this increased government be least likely to decrease private sector spending?
   a. The economy is operating significantly below its normal capacity. The economy is in a recession.
   b. The economy is operating at its normal capacity.
   c. The economy is operating significantly above its normal capacity. It is producing at a rate that experts feel it cannot sustain given its resources and technology.

20. _____ With the exception of the chapter 3 trade models, we draw PPC curves concave (bowed out, see the figures above)? What is the rational for this?
   a. Increasing production of one good entails “stealing” resources from the production of another good.
   b. An economy’s resources are not all identical.
   c. As an economy produces more and more of something, it gets better and better at it.
   d. As government increases in size, it can collect more taxes without greatly increasing its tax collection bureaucracy. The administrative cost per dollar of taxes collected falls.
21. (6 pts) Indicate (✓) which of the following would, ceteris paribus, cause a nation’s PPC to shift outwards? You can check as many blanks (or one, or none) as you wish.

___ An increase in the unemployment rate from 5% to 7%, where 5% is considered normal in both cases.
___ An decrease in the unemployment rate from 7% to 5%, where 5% is considered normal in both cases.
___ The elimination of social norms which place people into professions based mainly on their sex or race.
___ Available sources of oil, natural gas, and coal greatly decrease.

22. _____ The textbook featured an “In the News” segment in which it talked about policies regarding the world market for wool. What actions did the United States take?
   a. The U.S. threatened to place a tariff on Australian wines unless Australia repealed its tariff on U.S. wool.
   b. The U.S. talked about the need to lower trade barriers, but raised tariffs on wool imported in the U.S.
   c. The U.S. appealed Australia’s tariffs on wool imports to the United Nations.
   e. The U.S. appealed Australia’s tariffs on wool imports to the World Trade Organization.
   d. The U.S. cut its tariffs on wool imports into the U.S., but threatened to re-instate them if Australia didn’t follow suit.

23. _____ Which economist developed the theory of comparative advantage?
   a. John von Neumann
   b. A. C. Pigou
   c. David Ricardo
   d. Adam Smith
   e. William Thorton

24. _____ According to what was learned in class, what is the most effective way for the U.S. to preserve “white collar” jobs which pay a high standard of living, for American citizens?
   a. Encouraging more investment in physical capital, research, and training/education in the U.S.
   b. Printing more money.
   c. Penalizing, through taxes, U.S. firms that rely heavily on foreign high tech labor.
   d. Placing tariffs on imports of high tech goods and services entering the United States, but not on other goods.
   e. Subsidizing (i.e. govt. payments to) U.S. high tech firms which hire Americans but not foreigners.

25. _____ Scientists discover the lost continent of Atlantis. Unfortunately for Atlantisites, they are 1,000 years behind the rest of the world in terms of technology and capital. It takes many more labor hours to produce any and everything in Atlantis. Can the modern world and Atlantasites gain from trading with each other?
   a. Encouraging more investment in physical capital, research, and training/education in the U.S.
   b. Printing more money.
   c. Penalizing, through taxes, U.S. firms that rely heavily on foreign high tech labor.
   d. Placing tariffs on imports of high tech goods and services entering the United States, but not on other goods.
   e. Subsidizing (i.e. govt. payments to) U.S. high tech firms which hire Americans but not foreigners.
Below you are given a chart showing how many labor hours it takes to produce a unit of Wheat or a unit of Oranges in two countries. Use this to answer the questions 26 – 37.

<table>
<thead>
<tr>
<th>Country</th>
<th>Labor hours needed to produce 1 unit of</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Wheat (1 kg)</td>
<td>Oranges (1 kg)</td>
<td></td>
</tr>
<tr>
<td>Persia</td>
<td>2.5 hrs</td>
<td>12.5 hrs</td>
<td></td>
</tr>
<tr>
<td>Babylonia</td>
<td>5 hrs</td>
<td>15 hrs</td>
<td></td>
</tr>
</tbody>
</table>

26. (1.5 pts) Which nation has an absolute advantage in Wheat? ________________
27. (1.5 pts) Which nation has an absolute advantage in Oranges? ________________
28. (1.5 pts) Which nation has an absolute advantage advantage in Wheat? ________________
29. (1.5 pts) Which nation has an absolute advantage advantage in Oranges? ________________
30. (1.5 pts) Which nation has higher productivity when it comes to Wheat? ________________
31. (1.5 pts) Which nation has higher productivity when it comes to Oranges? ________________
32. (1.5 pts) What is the opportunity cost, in terms of what other goods could have been produced, of 1 kg of wheat in Persia? ________________ Make sure you include units!
33. (1.5 pts) What is the opportunity cost, in terms of what other goods could have been produced, of 1 kg of wheat in Persia? ________________ Make sure you include units!
34. (1.5 pts) Which nation will likely have the highest standard of living after trade? Check one blank.  
   _____ Persia  _____ Babylonia  
   _____ Both should have nearly identical standards of living. Trade can benefit both nations.  
35. (1.5 pts) What is a terms of trade at which both nations can gain? ________________ Include your units!
36. (8 pts) Assume that each nation 1) specializes completely in the production of one good, 2) has 1,000 labor hours. 3) all trade takes place at the terms of trade you indicated in # 35, and 4) these two countries are the only nation’s involved.
   a. Draw and label (ex. PPC_{Persia}) each nation’s PPC on the graph on the next page.
   b. Indicate each nation’s production. Use a P (ex. P_{Persia}) to label the point.
   c. Indicate each nation’s consumption. Use a C (ex. C_{Persia}) to label the point.
37. (8 pts) Fill in the table below. Make sure the numbers exactly match those on your graphs.

<table>
<thead>
<tr>
<th></th>
<th>Wheat</th>
<th>Oranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>_____ kg</td>
<td>_____ kg</td>
</tr>
<tr>
<td>Exports</td>
<td>_____ kg</td>
<td>_____ kg</td>
</tr>
<tr>
<td>Imports</td>
<td>_____ kg</td>
<td>_____ kg</td>
</tr>
<tr>
<td>Consumption</td>
<td>_____ kg</td>
<td>_____ kg</td>
</tr>
</tbody>
</table>