1. The U.S. Senate is debating a public assistance (i.e. welfare) program. Senator X states; “We need cut the level of public assistance a family can receive from the government. By giving poor families enough to get by without working, we reduce their incentive to work and produce. This means there is less total production in the U.S. economy” Senator Y states; “Slightly lower total production is a small price to pay to ensure that poor families can get by. I therefore support keeping the level of assistance at current levels or even increasing them” This debate is an example of:
   a. the market supply and demand.
   b. the pitfalls of using aggregate rather than marginal analysis.
   c. why we should avoid normative analysis if at all possible.
   d. the mechanics behind the invisible hand.
   e. a tradeoff between equity and efficiency.

2. Dawn is an economist working for the Bureau of Mines. She is examining a proposal to have the federal government specify the amount of ventilation (cubic feet per minute) all mines in the U.S. must have. Currently, regulations (and ventilation levels) vary from state to state. Dawn needs to estimate how many lives will be lost in a typical year at each of the possible levels of ventilation. How is she likely to get her estimate?
   a. controlled experiments
   b. “pseudo” controlled experiments
   c. econometrics: i.e. statistical inference
   d. multi (>2) dimensional graphing
   e. modal analysis (Laspeyres method)

3. Which of the following best illustrates the “Invisible Hand” in action?
   a. Wilma helps Betty when Betty is sick by mowing her (Betty’s) lawn. Wilma does this out of the goodness of her heart.
   b. Wilma helps Betty when Betty is sick by mowing her (Betty’s) lawn. Wilma does this because she knows that some day, in the future, Betty may repay her.
   c. Wilma acts nice to Betty’s face. However, when Betty is not looking, Wilma steals Betty’s credit card number.
   d. Fred mows Barney’s lawn, but only after Barney threatens to physically beat Fred up.
   e. Fred mows Barneys lawn, but only after Barney pays him to do it.
4. Who developed the term “Invisible Hand”?
   a. Alfred Marshall  
   b. Alfred von Neuman  
   c. David Ricardo  
   d. Adam Smith  
   e. Lawrence Tigler

5. In what text was the term “Invisible Hand” introduced?
   a. The Wealth of Nations  
   b. The Rise and Fall of the Great Nations  
   c. The Political Economy of Britain  
   d. Of Public and Private Spheres  
   e. The Invisible Hand

6. Bobby Buyer just purchased a used motorcycle from Sheldon Seller. Bobby paid $1,200 for the motorcycle. The motorcycle is worth at least $1,500 to Bobby. He would have been willing to pay up to $1,500. Which of the following is most likely true of Sheldon Seller?
   a. Sheldon most likely gained from the sale.  
   b. Sheldon most likely lost from the sale.  
   c. Sheldon had to be basing his decisions on erroneous information.  
   d. both b and c  
   e. none of the above

7. When government bans Malathion, a pesticide used in farming:
   a. there is no tradeoff since everyone benefits from reduced pollution.  
   b. there is no tradeoff since those having to reduce pollution are those who were benefiting from it.  
   c. there is a tradeoff only if some farms go out of business because of this.  
   d. there is a tradeoff because of reduced incomes to farm owners, workers, and customers.  
   e. data on the costs and benefits of Malathion is needed to answer this.

8. Matilda spent $550 and 80 total hours to take a C++ programming from TTI Institute. Which best describes her opportunity cost of taking this class?
   a. The extra money she earns from her new skills minus $550.  
   b. The extra money and the personal satisfaction she earns from her new skills minus what else she could have done with the $550 and 80 hours.  
   c. What else she could have done with the $550 and 80 hours.  
   d. The monetary gain she receives from her new skills.  
   e. What else she would have done with the $550. The 80 hours had to “spent” regardless.

9. Based on the concept of opportunity cost, which group will have the highest labor force participation rate? (i.e. Which group will have the highest percentage working for pay?)
   a. Women, 25 – 35, with 2 children, and less than a high school degree  
   b. Women, 25 – 35, with 2 children, and only a high school degree  
   c. Women, 25 – 35, with 2 children, and a bachelors degree  
   d. Women, 25 – 35, with 2 children, and a masters degree

10. Consider 2 groups: 1) Single people in their 20’s, with no kids, without a college degree in their 20s, and 2) Single people in their 30’s, with no kids, without a college degree. The 30 year old group earns more per hour and can afford to live better, while still attending college, than a 20 year old student. Despite this, the 30 year group is less likely to attend college. What is the best economic explanation of this?
   a. Institutions matter. College is traditionally considered taboo after one’s 20’s.  
   b. Rational behavior, although it is very practical, has not been adopted by all groups in society.  
   c. Older people are more likely to adjust for inflation and realize the true costs of inflation.  
   d. Institutions matter. Younger students are, as a group, much more optimistic about their future.  
   e. The two groups are responding to their different opportunity costs.
11. In the mid 1300’s the Bubonic plague decimated Europe, killing large numbers of people but leaving land and capital untouched. **True (a)** or False (b): The bubonic plague shifted Europe’s PPF inward.

12. In 1929, the U.S. unemployment rate was 3.2%. In 1933, after the Great Depression rocked the nation, unemployment reached 25.2%. Production had fallen to 71% of its 1929 level. **True (a)** or False (b): The U.S.’s PPF necessarily shifted inwards during the Great Depression inward.

13. You and your friend, Travis Mayweather, are reading science fiction books one evening. Travis states; “With all that technology they (the people living in the future) should be able to eliminate scarcity.” Travis’ statement is:
   a. an example of reverse causation
   b. probably false. Human wants tend to always exceed our ability to meet those wants.
   c. true only if she excludes those in the bottom (approximately) half of Star Trek society.
   d. probably false. Technological advance is inevitably associated with more income inequality.
   e. both c & d

14. Finally! You’ve graduated and gotten that dream job managing a coat hanger factory. You are trying to decide how many workers to hire. Currently the firm has 6 workers. The owner has asked you to use marginal analysis. Which data do you most need to make this decision?
   a. data on how many hangers the factory currently produces, how much those hangers are sold for, and how much the firm pays for its six workers.
   b. a formal model of the firm’s PPF (based on past production data)
   c. data on the number of labor hours it takes to produce a hanger in competitors’ factories (absolute cost data)
   d. data on other products your competitors could produce (comparative cost data)
   e. an estimate on how much extra production a 7th worker will bring in, how much those extra hangers can be sold for, and how much the 7th worker will cost to hire.

15. Which of the diagrams below represent an increase in capacity utilization? **B**

   a. 
   ![Diagram A]
   
   b. 
   ![Diagram B]
   
   c. 
   ![Diagram C]
   
   d. 
   ![Diagram D]
   
   e. 
   ![Diagram E]

16. Which of the diagrams above represent a decrease in capacity? **A**
17. In 2010 the U.S. economy is doing quite well relative to its capacity. The European economy, however, is in a very severe recession. Then the two nations (consider Europe to be a nation) are drawn into a war against the rouge state of Atlantis. **Assume the military build-up is the same relative size in both cases (say 8% of GDP).** In which case would production of non-military goods (i.e. civilian goods) be most likely to fall from their 2010 levels?
   a. the United States
   b. Europe
   c. consumer goods should fall by the same (relative) amount in both countries

18. Wilma and Betty live in separate houses right next to each other. This weekend, each is concerned with 1) getting her yardwork done mowed, and 2) cutting down and removing some trees in her yard. It takes Wilma 4 hours to do the yardwork and 12 hours to take care of the trees. It takes Betty 3 hours to do the yardwork and 6 hours to take care of the trees. Can Betty and Wilma gain from trading tasks with each other?
   a. No, Betty is better at both tasks and cannot gain from Wilma’s help.
   b. Yes, Betty should specialize in yardwork and Wilma should specialize in tree removal.
   c. Yes, Wilma should specialize in yardwork and Betty should specialize in tree removal.
   d. No, Wilma is worse at both tasks and therefore cannot make Betty any beneficial offer.
   e. Both a and b are correct

19. Which of the following is an argument for free(r) trade?
   a. Trade helps a nation ensure it has a secure base of defense industry materials.
   b. Trade makes a nation more self-reliant. A nation that trades is less affected by economic fluctuations in the rest of the world.
   c. **Selling to world markets, instead of just the local market, may allow a firm to be larger which, in many industries, means lower (per unit) costs.**
   d. The gains from trade come at no cost to a society.
   e. None of the above are correct.

20. Who developed the theory (or Law) of Comparative Advantage?
   a. Alfred Marshall
   b. Alfred von Neuman
   c. David Ricardo
   d. Adam Smith
   e. Lawrence Tigler

21. Assume there is 1) no government intervention, 2) no industry wide information gathering organization, and 3) no direct communication among firms. How, if at all, will a private market “decide” how much to produce and what price to charge?
   a. The market will not successfully decide on a price on quantity without any of these 3 market “pillars”.
   b. The market will decide on a price and quantity only if buyers successfully form a cooperative.
   c. **The market will converge to a particular price and quantity as sellers respond to surpluses or shortages.**
   d. The market will set price equal to costs of production plus a standard markup. Quantity will be set at a level just below where firms have to start paying overtime and looking for news sources of materials.
   e. In this case, government will have to step in to disseminate information necessary to set prices and production.
Answer #’s 22 – 28 based on the PPF’s below. Assume a 2 nation, 2 good world.

22. True (a) or False (b): Both nations can gain from specialization & trade if the Terms of Trade is $\frac{0.66 \text{ Oil}}{1 \text{ Wheat}}$.

23. True (a) or False (b): Both nations can gain from specialization & trade if the Terms of Trade is $\frac{0.5 \text{ Oil}}{1 \text{ Wheat}}$.

24. True (a) or False (b): Both nations can gain from specialization & trade if the Terms of Trade is $\frac{0.33 \text{ Oil}}{1 \text{ Wheat}}$.

25. True (a) or False (b): Troy should specialize in the production of oil if it wants to gain from trade.

26. True (a) or False (b): Troy should import oil if it wants to gain from trade.

27. Which combination is possible, given the PPFs, and represents both nations gaining from trade?
   a. Troy exports 600 oil and imports 300 wheat. Mycenae imports 300 oil and imports 600 wheat.
   b. Troy exports 300 oil and imports 600 wheat. Mycenae imports 600 oil and exports 300 wheat.
   c. Troy imports 300 oil and exports 600 wheat. Mycenae exports 300 oil and imports 600 wheat.
   d. Troy imports 300 oil and exports 800 wheat. Mycenae exports 300 oil and imports 800 wheat.
   e. none of the above

28. Which combination is possible, given the PPFs, and represents both nations gaining from trade?
   a. Troy consumes 400 oil and 400 wheat. Mycenae consumes 400 oil and 1,000 wheat.
   b. Troy consumes 500 oil and 800 wheat. Mycenae consumes 500 oil and 800 wheat.
   c. Troy consumes 300 oil and 600 wheat. Mycenae consumes 600 oil and 300 wheat.
   d. Troy consumes 300 oil and 800 wheat. Mycenae consumes 500 oil and 1,000 wheat.
   e. none of the above
29. _____ Which of the following best defines *Ceteris Paribus*?
   a. The world (i.e. situation under consideration) is unchanging.
   b. “All else is constant.” Only what is stated to change does change.
   c. What is true for an individual is not true for the group as a whole.
   d. “Buyer beware!” Buyers need to take responsibility for their own actions (i.e. purchases).
   e. “Let us be!” Given good property rights, the private sector works well on its own.

30. A privately owned tannery in the county of Ibsen is spilling pollutants into a nearby stream. This is adversely affecting fishermen and bathers who use the stream. This is an example of:
   a. the Invisible Hand working as it should.
   b. an externality.
   c. market cost deduction.
   d. market cost induction.
   e. people responding to incentives to increase society’s economic efficiency.

31. Consider the following statement made by Bob, an airline security expert: “A month ago hand held metal detectors were selling for $300 each and 10,000 were purchased a month. This month, manufacturers raised the price to $350 each. Buyers are now purchasing 14,000 a month. The events of September 11th have caused demand for hand held metal detectors to slope up.” Which of the following is true?
   a. The statement is not correct. Bob failed to take the demand side of the market into account. He is only looking at supplier’s wishes, not what buyers will actually buy.
   b. The statement is not correct. Bob is talking about points on 2 different demand curves.
   c. The statement is correct. The law of demand is actually just a general rule. Demand curves tend to slope down. There can, however, be individual exceptions.
   d. The statement is correct. Demand for superior (i.e. non-inferior) goods can slope up.
   e. The statement is correct. Demand for inferior goods can slope up.

32. You are visiting Russia. Unfortunately our speak very little Russian. You read a newspaper that (correctly) states; “Price of *ñâèíèíà* increases greatly and quantity sold increases!” What can be said about the market for *ñâèíèíà*? Pick the one best answer.
   a. Demand for *ñâèíèíà* has decreased.
   b. Demand for *ñâèíèíà* has increased.
   c. Supply of *ñâèíèíà* has decreased.
   d. Supply of *ñâèíèíà* has increased.
   e. *ñâèíèíà* must have changed from as inferior good to a superior good.

33. Which of the following would cause a decrease in the supply of gasoline? Assume nothing else changes except what is explicitly said to change.
   a. a decrease in the price of gasoline
   b. new government regulations requiring that gas producers remove 100% of the naturally occurring lead found in gasoline
   c. an increase in the price (of gasoline
   d. both a and b
   e. none of the above
34. Assume that the market for apartments in Westside is initially in equilibrium. Then, the price of apartments in Eastside (right next to Westside) rise greatly. The quality, etc. of apartments in both areas is unchanged. What will happen in the market for apartments in Westside?
   a. Price rises and quantity rises in Westside.  
   b. Prices rises and quantity falls in Westside.  
   c. Price falls and quantity rises in Westside.  
   d. Price falls and quantity falls in Westside.  
   e. No change in either price or quantity.

35. Assume that the market for natural gas oil is initially in equilibrium. Then, a new technology, off-angle fracturing, is developed. This technology makes it easier for a company to get oil out of a well. What will happen in the market for oil?
   a. Price rises and quantity rises.  
   b. Prices rises and quantity falls.  
   c. Price falls and quantity rises.  
   d. Price falls and quantity falls.  
   e. No change in either price or quantity.

36. Assume that the market for Pig’s Feet is initially in equilibrium. Assume Pig’s Feet is an inferior good. Then, average incomes rise as the economy recovers from a recession. What will happen in the market for Pig’s Feet?
   a. Relative price rises and quantity rises.  
   b. Relative price rises and quantity falls.  
   c. Relative price falls and quantity rises.  
   d. Relative price falls and quantity falls.  
   e. No change in either price or quantity.

37. Assume that the market for steel is initially in equilibrium. Then, the price of coal, used in the production of steel, rises greatly. What will happen in the market for steel?
   a. Relative price rises and quantity rises.  
   b. Relative price rises and quantity falls.  
   c. Relative price falls and quantity rises.  
   d. Relative price falls and quantity falls.  
   e. No change in either price or quantity.

38. Assume that the market for bus travel is initially in equilibrium. Then, the price and inconvenience of air travel rises due to the events of September 11th. Assume providers of air travel do not also provide bus travel. What will happen in the market for Bus travel? (This was dropped in the 9:00 class, but not the 10:00 class)
   a. Relative price rises and quantity rises.  
   b. Relative price rises and quantity falls.  
   c. Relative price falls and quantity rises.  
   d. Relative price falls and quantity falls.  
   e. No change in either price or quantity.

39. In January of 2000 a TCU economist made the following statement during a radio interview: “I predict the U.S. unemployment will rise to somewhere above 4.5% but below 5% by the fall”. According to lecture and the text, what type of statement is this?
   a. Transitional  
   b. Socratic  
   c. Positive  
   d. Quixotic  
   e. Normative

40. In September of 2000 an SMU economist made the following statement during a newspaper interview: “The Bush administration should not spend more than $10 billion on an airline bailout bill”. According to lecture and the text, what type of statement is this?
   a. Transitional  
   b. Socratic  
   c. Positive  
   d. Quixotic  
   e. Normative