Economics 100 Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Spring 2015

Answers to Quiz #2

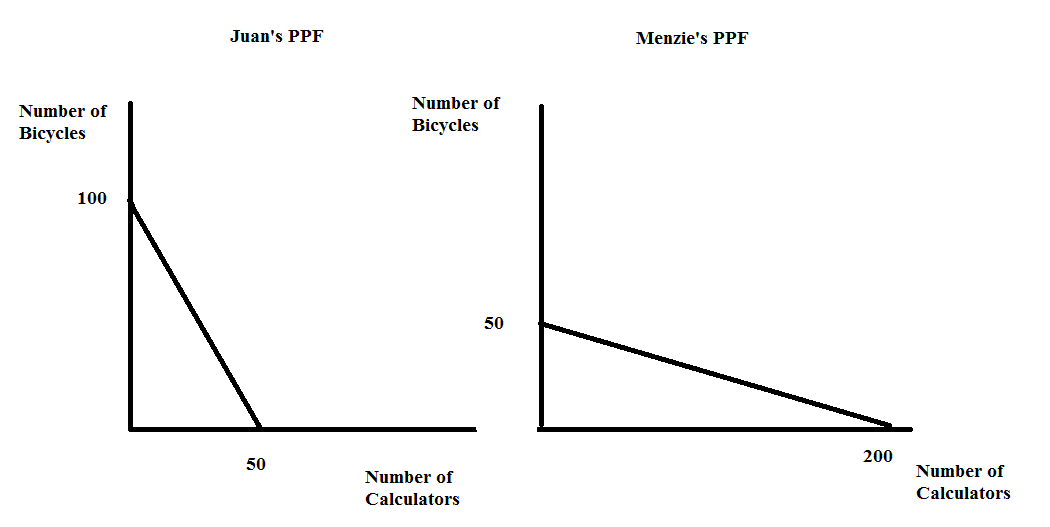
Write legibly please! Show all work.

1. Suppose that Juan and Menzie are the only two individuals in an economy and that both Juan and Menzie produce bicycles and calculators. The table below provides you with information about the maximum amount of bicycles and calculators each of these individuals can produce given their resources, technology and time if they only produce either paper or calculations.

|  |  |  |
| --- | --- | --- |
|  | Maximum Number of Bicycles that can be Produced if only Bicycles are Produced | Maximum Number of Calculators that can be Produced if only Calculators are Produced |
| Juan | 100 | 50 |
| Menzie | 50 | 200 |

1. (1 point) In the space below provide two graphs. In the first graph draw Juan's PPF measuring bicycles on the vertical axis and calculators on the horizontal axis. In the second graph draw Menzie's PPF with the same axis labeling. Make sure your graphs are completely and carefully labeled for full credit.

Answer:



1. (1/2 point) Juan's opportunity cost of producing 5 calculators is equal to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (make sure you provide a numeric value as well as the units of measurement in your answer).

Answer:

10 bicycles: The opportunity cost for Juan of producing one calculator is 2 bicycles; thus, the opportunity cost for Juan of producing 5 calculators will be 5(2 bicycles) or 10 bicycles.

1. (1/2 point) Menzie's opportunity cost of producing 5 bicycles is equal to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (make sure you provide a numeric value as well as the units of measurement in your answer).

Answer:

20 calculators: The opportunity cost for Menzie of producing one bicycle is 4 calculators; thus, the opportunity cost for Menzie of producing five bicycles will be 5(4 calculators) or 20 calculators.

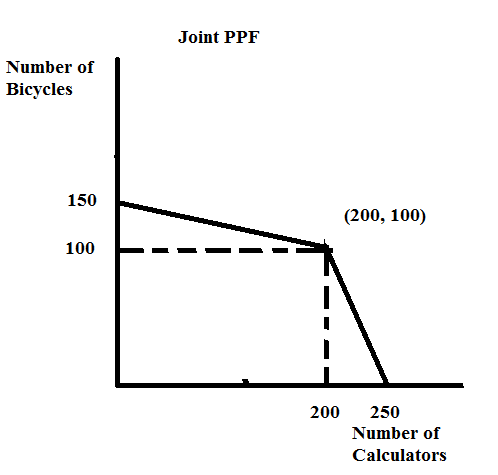
1. (1 point) Given the above information, who has the comparative advantage in the production of bicycles? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Answer:

Juan

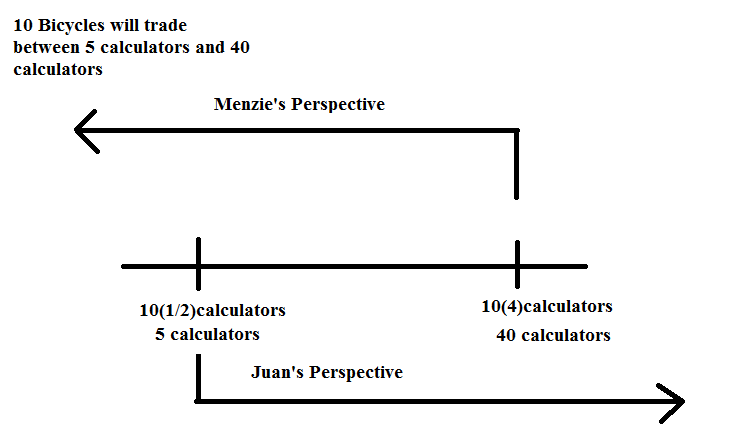
1. (1 point) In the space below draw the joint PPF for Menzie and Juan based upon the above information. Measure bicycles on the vertical axis and calculators on the horizontal axis. Identify the numeric values for each intercept as well as the coordinate values (calculators, bicycles) for any "kink" point. Make sure your graph is clearly and completely labeled.

Answer:



1. (1 point) Provide a depiction using the number line approach for the trading range of prices measured in calculators for 10 bicycles. Make sure your number line also identifies Menzie's perspective as well as Juan's perspective with respect to this potential trade.

Answer:



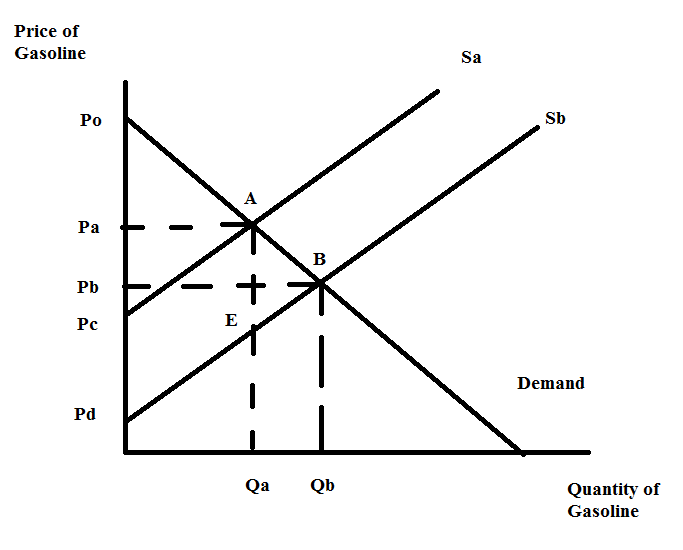
1. (3 points) In the space below describe one example of something good that government does and one example of something that government does poorly. Base your discussion on Chapters 3 and 4 of the Wheelan book, Naked Economics. Don’t just cite the example, but include a paragraph on each example and why it is a good illustration of the particular issue with regard to the government.

Answer:

1 point per example

1 point for explanation

1. The graph below represents the market for gasoline. You will note that there are two supply curves in the graph and you need to help your buddy figure out what is happening in this market for gasoline. Besides the graph, you also know that the group of gasoline exporting countries that are in a cartel have decided to sell gasoline at a lower price than they did initially.



1. (1 point) Given the above information, which supply curve represents the initial supply curve before the gasoline exporting countries decide to sell gasoline at a lower price?

Answer:

Sa is the initial supply curve.

1. (1/2 point) What is the area that corresponds to consumer surplus initially? Use letters from the graph to identify this area.

Answer:

Consumer surplus initially is area PoAPa.

1. (1/2 point) What is the area that corresponds to consumer surplus once the gasoline exporting countries decide to sell gasoline at a lower price? Use letters form the graph to identify this area.

Answer: Consumer surplus after the gasoline exporting countries decide to sell gasoline at a lower price is area PoBPb.