

I. Multiple Choice Questions:

1. Which of the following would not promote economic growth within a society?
 - A) Increasing the skill level of the workforce.
 - B) An increase in technological expertise.
 - C) More people looking for jobs than there are jobs available.
 - D) An increase in the stock of machines and productive equipment.
2. The opportunity cost of attending college is likely to be highest for a high school graduate:
 - A) who has access to student loans.
 - B) whose family is extremely wealthy.
 - C) who will attend a more expensive college.
 - D) who started a successful business in high school.
3. Benny has one hour before bedtime and he can either watch TV or listen to his new Korn CD. He chooses to listen to the CD. The scarcity problem's influence on Benny is seen in:
 - A) a the decision to listen to music.
 - B) the decision not to watch TV.
 - C) the fixed amount of time before bed.
 - D) the decision to choose between TV and music.
4. All of the following statements are false except:
 - A) Normative economic statements are statements of fact.
 - B) In positive economics, we are detached scientists and personal values do not enter our description of economic events.
 - C) "The unemployment rate for September, 1987 was 5.9 percent" is a normative statement.
 - D) "The government should provide a minimum income to every citizen" is a positive statement.
5. Economists frequently use economic models. These models:
 - A) are tools used in the analysis of economic relationships.
 - B) may be graphs expressing the relationship between two economic variables.
 - C) may be equations expressing a relationship between two or more variables.
 - D) all of the above.
6. Which one of the following statements is false?
 - A) If the economist wants to examine the distribution of income in 1987, time- series data should be used.
 - B) If the economist wants to examine the relationship between advertising expenditures and sales during 1987, cross-section data is used.
 - C) If the economist wants to examine the effect of intellectual ability upon earnings, cross-section data could be used.
 - D) If the economist wants to forecast gross national product based upon observations from previous years, time-series data should be used.

II. Short Questions:

1. The following are hypothetical production possibilities tables for Japan and the United States.

Japan's Production Possibilities Table
(Millions of bushels)

| | A | B | C | D |
|---------|----|----|----|-----|
| Bananas | 0 | 40 | 80 | 120 |
| Oranges | 30 | 20 | 10 | 0 |

The United States' Production Possibilities Table
(Millions of bushels)

| | A | B | C | D |
|---------|----|----|----|----|
| Bananas | 0 | 20 | 40 | 60 |
| Oranges | 30 | 20 | 10 | 0 |

For each line required, plot any two or more points on the line.

- (i) Plot Japan's production possibilities curve by plotting at least 2 points on the curve.
- (ii) Plot the United States' production possibilities curve by plotting at least 2 points on the curve on the graph above.
- (iii) What is each country's cost ratio of producing Oranges and Bananas?
- (iv) Which nation should specialize in which product?
- (v) Plot Japan's trading possibilities curve (by plotting at least 2 points on the curve) if the actual terms of the trade are 1 orange for 3 bananas.
- (vi) Plot the United States' trading possibilities curve (by plotting at least 2 points on the curve) if the actual terms of the trade are 1 orange for 3 bananas.
- (vii) Suppose that the optimum product mixes before specialization and trade were C in Japan and B in the United States. What are the gains from specialization and trade?

2. Consumer Price Index and Real Price Index:

Over a four-year period, the prices of mangoes P_M (in dollars) and the Consumer Price Index (CPI) are given below:

| Year | CPI | Price of Mangoes (P_M) |
|------|-----|----------------------------|
| 1991 | 94 | 14 |
| 1992 | 100 | 15 |
| 1993 | 105 | 16 |
| 1994 | 115 | 17 |

- i. Which year is the base year for CPI? Use this same base year for mangoes.
- ii. Calculate the nominal price index for mangoes.
- iii. Calculate the real price index for mangoes.
- iv. Have mangoes been more or less expensive compared to the typical goods consumers buy as measured by the CPI? Explain.