DIRECTIONS: Put all your answers on the attached answer sheet. No credit will be given for answers placed elsewhere. Unless indicated otherwise, each question is worth 2 points.

To answer the next 6 questions, suppose that a small island economy has 100 Russians and 50 Bosnians. Each Russian is capable of making either 8 straw hats or 2 rugs in a day. Each Bosnian is capable of making 6 straw hats or 3 rugs in a day.

1. What is the opportunity cost of 1 straw hat (in terms of rugs) if a Russian makes the hat?

2. What is the opportunity cost of 1 rug (in terms of straw hats) if a Bosnian makes the rug?

3. Who has the comparative advantage in making rugs?

4. (3 points) Draw the PPF for this economy in the space provided on the answer sheet. Place a numerical value on the vertical intercept, the horizontal intercept, and point at which there is a "kink" in the PPF.

5. If the economy produces 300 straw hats, what is the maximum number of rugs it can produce?

6. A combination of 900 straw hats and 150 rugs is
   a. technologically efficient.
   b. technologically inefficient.
   c. unattainable without additional resources.

7. If the economy is organized efficiently and produces 300 straw hats, Russians will produce ______ hats and ______ rugs.
8. Suppose that the economy is producing an amount of gasoline where the marginal cost of gasoline exceeds its marginal benefit. On the basis of this information, it would be correct to conclude:
A. the economy is producing more than the allocatively efficient amount of gasoline.
B. The economy is producing less than the allocatively efficient amount of gasoline.
C. The economy is producing more than the technologically efficient amount of gasoline.
D. The economy is producing less than the technologically efficient amount of gasoline.

9. If the marginal cost of gasoline decreases,
A. the technologically efficient amount of gasoline increases.
B. the technologically efficient amount of gasoline decreases.
C. the allocatively efficient amount of gasoline decreases
D. the allocatively efficient amount of gasoline increases

10. To make a prediction of how a cigarette tax increase would affect the price of cigarettes would be an example of a _____ statement. To make a statement regarding whether such a tax increase is appropriate based on your values would be an example of a _____ statement.
   a. normative; positive.
   b. positive; normative
   c. positive; negative.
   d. negative; positive.

To answer the next 2 questions, refer to the supply/demand diagram for gasoline below.

11. If the price of gasoline is $.90, there would be a (shortage, surplus) of _______ million gallons per day.

12. A shortage of gasoline would be created by:
   a. a price floor below $1
   b. a price ceiling below $1
   c. a price floor above $1
   d. a price ceiling above $1
13. Which of the following would lead to an increase in the equilibrium price but a decrease in the equilibrium quantity of personal computers?
   a. higher consumer income, assuming personal computers are normal goods.
   b. an increase in the wages that personal computer manufacturers must pay their employees.
   c. a decrease in the price of “web pcs” which some consumers view as a substitute for a personal computer.
   d. none of the above.

14. Over time, the price of college textbooks has increased dramatically while the number of textbooks sold has increased as well. Assuming that the textbook market is always at a market equilibrium, what could explain this trend?
   a. an increase in the number of college students.
   b. an improvement in the technology used to produce textbooks that has reduced the cost of printing.
   c. an increase in the wage rate that publishers must pay authors of textbooks.
   d. none of the above.

15. Suppose that farmers that grow beans could use the same land and equipment to grow corn. If the government implements a program that leads many new companies to form and start using corn to produce gasohol, this would most likely cause the equilibrium price of beans to ______ and the equilibrium quantity of beans to ______.
   a. rise; rise.
   b. fall; rise.
   c. rise; fall.
   d. fall; fall.

16. (1 pt) Al Gore is proposing a (larger, smaller) tax cut than George Bush. Also, only (Gore, Bush) is proposing “retirement saving plus”.
   a. smaller; Gore.
   b. larger; Gore.
   c. larger; Bush.
   d. smaller; Bush.
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