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 1 point.

To answer the next 7 questions, suppose that a small island economy has 20 Hondurans and 30 Jamaicans. Each Honduran is capable of making 4 bows or 20 arrows in a day. Each Jamaican is capable of making 5 bows or 15 arrows.

1. Who has the comparative advantage in arrow making?

2. (3 points) Draw the PPF for this economy in the space below. Place a numerical value on the vertical intercept, the horizontal intercept, and point at which there is a "kink" in the PPF.

   ![Graph](image)

3. (2 points) If the economy produces 40 bows, what is the maximum number of arrows it can produce?

If the economy produces 40 bows and the maximum number of hats,

4. The Hondurans will produce _____ bows and the Jamaicans will produce _____ bows.

5. The Hondurans will produce _____ arrows and the Jamaicans will produce _____ arrows.
6. A combination of 85 bows and 625 arrows is:
   a. Technologically inefficient
   b. Technologically efficient
   c. Unattainable without additional resources or better technology.

7. (2 points) Suppose that the economy described above is currently on its production possibilities frontier and producing 100 bows and the maximum number of arrows. If people are willing to give up 2 arrows for an additional bow, bow production is currently
   a. Above the allocatively efficient level because the marginal cost of bows exceeds the marginal benefit.
   b. Above the allocatively efficient level because the marginal benefit of bows exceeds the marginal cost.
   c. Below the allocatively efficient level because the marginal cost of bows exceeds the marginal benefit.
   d. Below the allocatively efficient level because the marginal benefit of bows exceeds the marginal cost.

8. (2 points) List the four scarce resources (or “factors of production”) that an economy must choose how to allocate.

9. A person observes that if the limit on the number of fish she catches at a local pond would be eliminated for her, she would be happier. If she then concludes that if the limit was eliminated for everyone, everyone would be happier, her logic may be flawed due to
   a. a fallacy of composition
   b. a ceteris paribus error
   c. an ex post ergo hoc error
   d. the bullhead syndrome.

To answer the next 3 questions, refer to the supply/demand diagram for gasoline below.

10. If the price of gasoline is $.90, there is a (shortage, surplus) of ______ million gallons per day.

11. If the price of gasoline is $.90, quantity supplied is _____ and quantity demanded is ______.

12. A shortage of gasoline would be created by:
   a. a price floor of $.90
   b. a price ceiling of $1.10
13. Demand for a product would shift right if:
   a. the price of a substitute in production decreases.
   b. the price of a substitute in consumption decreases.
   c. the price of a complement in consumption increases.
   d. the good is inferior and consumer income decreases.

To answer the next 2 questions, consider the fact that the Bush Administration has implemented tariffs of up to 30 percent on imported steel. This has driven up the price of imported steel. For producers that use steel to manufacture their products, imported steel is a substitute for domestically produced steel.

As the price of imported steel increases, in the market for domestic steel, we should expect to see

13. supply (increase, decrease, not change) and demand (increase, decrease, not change).
14. the equilibrium price of domestic steel to (rise, fall) and the equilibrium quantity of domestic steel to (rise, fall).

15. Which of the following could cause an increase in the equilibrium price and a decrease in the equilibrium quantity of computer chips?
   a. an increase in the price of materials used in the production of computer chips.
   b. an increase in the price of computers which are complements in consumption to computer chips.
   c. a decrease in the price of computers which are complements in consumption to computer chips.
   d. a and b.

16. Suppose that tobacco farmers could grow either tobacco or marijuana. Also, assume that cigarettes and marijuana are NOT viewed as substitutes by consumers. Suppose that the government’s campaign against cigarette smoking is successful. In the market for marijuana, this could cause the equilibrium price of marijuana to (rise, fall) and the equilibrium quantity of marijuana to (rise, fall):
   a. rise; rise.  
   b. rise; fall.  
   c. fall; fall.  
   d. fall; rise.

17. Suppose that as people’s income falls, they buy more HOKEY cereal for breakfast. This implies that HOKEY cereal is:
   a. a normal good.
   b. an inferior good.
   c. a complement to income.
   d. a substitute for income.

18. Which of the following would cause a decrease in the equilibrium price and a decrease in the equilibrium quantity of HOKEY cereal?
   a. an increase in the wages paid to workers at the HOKEY factory.
   b. a news report that HOKEY cereal increases risk of heart disease.
   c. an increase in the price of other cereals that consumers view as substitutes for HOKEY.
   d. a decrease in the price of grain used to manufacture HOKEY.

19. Suppose that the equilibrium price of corn is currently $1 per bushel. If the government freezes the price at $1, which of the following shocks would lead to a shortage of corn?
   a. an increase in the price of a substitute in production for corn.
   b. a decrease in the price of a complement in production for corn.
   c. a decrease in consumer income, assuming corn is a normal good.
   d. a decrease in the price of a substitution in consumption for corn.
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<td>6</td>
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<td>8 (2 pts)</td>
<td>land, labor, capital, entrepreneurship</td>
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