To answer the next 6 questions, suppose that a small island economy has 10 Haitian and 20 Cuban workers. Each Haitian is capable of catching either 20 fish or gathering 200 pounds of wood in a day. Each Cuban is capable of catching either 10 fish or 160 pounds of wood in a day.

1. The opportunity cost of 1 fish is ____ pounds of wood if a Haitian catches the fish and ____ pounds of wood if a Cuban catches the fish.

2. ______ have the comparative in wood production and ______ have the comparative advantage in fish production.
   a. Haitians; Cubans.
   b. Cubans; Haitians.
   c. Haitians; Haitians.
   d. Cubans; Cubans.

3. Assuming the economy allocates resources efficiently and produces 300 fish, what is the maximum amount of wood that can be collected if resources are allocated efficiently?

4. If the economy produces 300 fish and maximizes its production of wood, how many of the fish will be caught by Cubans?

5. The “kink” in the PPF for this economy (i.e. the point at which the slope changes) will occur at _______ fish and ______ pounds of wood.

6. A combination of 300 fish and 1000 pounds of wood is:
   a. technologically efficient.
   b. technologically inefficient.
   c. unattainable without additional resources or technology that improves worker productivity.
7. A marginal benefit curve has a ____ slope and a marginal cost curve has a ____ slope.
   a. positive; negative
   b. positive; positive
   c. negative; positive
   d. negative; negative.

8. Suppose that in the market for electricity the marginal benefit of trees exceeds its marginal cost. This would imply that the market is producing (more than, less than) the allocatively efficient number of trees and it might be wise for government to introduce a tree (tax, subsidy).
   a. more than; tax.
   b. more than; subsidy.
   c. less than; tax.
   d. less than; subsidy.

9. Suppose that there is a rapid increase in the price of jet fuel. This would most likely ____ the equilibrium price of airline tickets and ____ the equilibrium quantity of airline tickets sold.
   a. increase; decrease.
   b. increase; increase.
   c. decrease; decrease.
   d. decrease; increase.

10. Suppose that there is simultaneously an increase in the price of paper used to produce books and an increase in the number of people who wish to read books. Based on these two factors alone, it is safe to conclude that:
    a. equilibrium price will rise but the equilibrium price may either rise or fall.
    b. equilibrium price and quantity will rise.
    c. equilibrium price and quantity will fall.
    d. equilibrium quantity will rise, but equilibrium price may either rise or fall.

11. Suppose that over the next month both the price and quantity of sugar in the U.S. rises. Which of the following shocks could cause this by itself?
    a. a major sugar processing plant burns down.
    b. there is a health report released indicating that an important sugar substitute has been determined to cause cancer.
    c. the cost of shipping sugar has been reduced because of a reduction in gasoline prices.
    d. none of the above.

12. (1 point) Suppose that the equilibrium price of apples is $.50 and government places a price ceiling at $.40. This will cause
    a. a shortage of apples.
    b. a surplus of apples.
    c. neither a shortage or surplus of apples.
13. (1 point) Suppose that the equilibrium price of apples is $.50 and there are no price controls by government. If the price of oranges increases, we should expect that the supply of apples will ___ and the demand for apples will ____.
   a. increase; increase.
   b. not change; increase.
   c. not change; decrease.
   d. increase; not change.

14. (1 point) Suppose that the equilibrium price of apples is $.50 and that the government imposes a price freeze on apples at $.50 (price is not allowed to either increase or decrease). If there is an increase in the price of oranges, we should expect that a_______ of apples will be created as a result of this price freeze.
   a. shortage
   b. surplus

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