To answer the next 6 questions, suppose that a small island economy has 50 Russians and 100 Bosnians. Each Russian is capable of making either 5 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. Do Russians or Bosnians have the comparative advantage in making rugs?

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

5. (2 points) If the economy produces 300 straw hats, what is the maximum number of rugs it can produce?

6. (2 points) Is a combination of 300 straw hats and 1400 rugs
   a. efficient.
   b. inefficient.
   c. unattainable without additional resources.

7. (2 points) List the 4 types of resources in an economy.

8. The fact that a PPF is "bowed away from the origin" is implied by:
   a. resources are limited.
   b. the law of increasing marginal opportunity cost.
   c. the law of supply.
   d. the law of demand.

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 in the market for electricity the marginal cost of electricity exceeds its marginal benefit. This would imply that the market is producing *more than, less than* the allocatively efficient amount of electricity.
   a. more than.
   b. less than.

11. An increase in the marginal cost of electricity production would *(increase, decrease, not change)* the allocatively efficient amount of electricity.
   a. increase
   b. decrease
   c. not change.

12. (2 points) In the diagram below, what area(s) represent the deadweight loss associated with producing q1 units of output?

![Diagram](attachment:image.png)

13. (2 pts). The deadweight loss described in the previous question represents:
   a. the difference between the additional benefits and costs associated with increasing production from q1 to q2.
   b. the additional benefits associated with increasing production from q1 to q2.
   c. the additional costs associated with increasing production from q1 to q2.
   d. none of the above.
To answer the next 2 questions, refer to the hypothetical supply and demand curve for bottled water given in the diagram below.

14. (2 pts) If a price ceiling was imposed at $.70 per gallon, there would be:
   a. a shortage of 500 gallons per day
   b. a surplus of 1000 gallons per day
   c. a surplus of 500 gallons per day
   d. none of the above.

15. (2 pts) If a price floor was imposed at $.70 per gallon, there would be:
   a. a shortage of 500 gallons per day
   b. a surplus of 1000 gallons per day
   c. a surplus of 500 gallons per day
   d. none of the above.

16. If bottled water is a normal good, an increase in consumer income will cause bottled water demand to ____ and bottled water supply to ____.
   a. increase; not change.   b. increase; increase.  c. decrease; increase. d. decrease; decrease.

17. If bottled water and Coca-Cola are substitutes in consumption, an increase in the demand for Coca-Cola will cause the equilibrium price of water to ____ and its equilibrium quantity to ____.
   a. increase; decrease.   b. increase; increase.  c. decrease; increase. d. decrease; decrease.

18. If bottled water and lemons are complements in consumption, an increase in the price of lemons will cause the equilibrium price of bottled water to ____ and the equilibrium quantity to ____.
   a. increase; increase.   b. increase; decrease.  c. decrease; increase. d. decrease; decrease.
19. Which of the following could explain a simultaneous decrease in the price of bottled water and an increase in the quantity of bottled water?
   a. a decrease in the cost of producing bottled water.
   b. an increase in the price of a substitute in consumption for bottled water.
   c. an increase in the price of a complement in consumption for bottled water.
   d. none of the above.

20. Some sales managers are talking shop. Which of the following quotations refers to a movement along the demand curve?
   a. "Since our competitors raised their prices our sales have doubled.
   b. "It has been an unusually mild winter; our sales of wool scarves are down from last year."
   c. "We decided to cut our prices, and the increase in our sales has been remarkable."
   d. None of the above.

21. A rise in the price of a round of golf is likely to shift:
   a. the demand curve for golf balls left.
   b. the demand curve for golf balls right.
   c. the supply curve for golf balls right.
   d. the supply curve for golf balls left.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th>12 (2)</th>
<th>B+D</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2/5 rug</td>
<td>2</td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>2 hats</td>
<td>13 (2)</td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Bosnians</td>
<td>14 (2)</td>
<td>D</td>
<td></td>
</tr>
<tr>
<td>4 (3)</td>
<td>use space at bottom of this page.</td>
<td>15 (2)</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>5 (2)</td>
<td>275</td>
<td>16</td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>6 (2)</td>
<td>c</td>
<td>17</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>7 (2)</td>
<td>land, labor, capital, entrepreneurship</td>
<td>18</td>
<td>D</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>B</td>
<td>19</td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>A</td>
<td>20</td>
<td>C</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>A</td>
<td>21</td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>B</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

![Graph showing the relationship between rugs and hats](image)