

Name _____

September 27, 2000

Pledge: *No Aid; No Violations*

Sign _____

Quiz #1

Note:

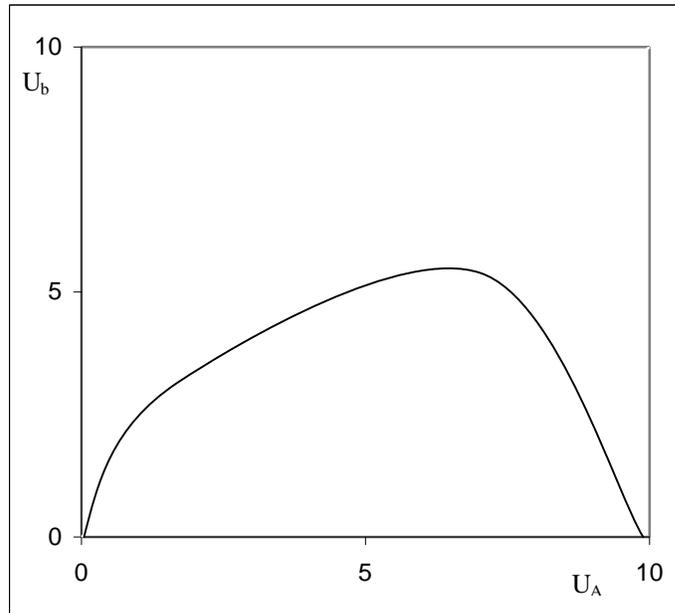
- Please answer in the space provided, or continue on the back of the page.
- Show your calculations in order that you may receive partial credit even if you make a numerical error.
- The examination will end at 11:50.
- After you finish the exam, check over your work carefully.
- You may turn in the exam and leave the room when you have finished – but please depart quietly.

I: Please circle the letter in front of the best answer.

1. According to “How Much for a Life?” by Peter Passell of the *New York Times*, people:
 - a. traditionally have refused to accept any safety hazards on the job.
 - b. voluntarily accept the risk of death in return for money all the time.
 - c. generally value their lives at \$500 million.
 - d. cannot be lured by extra pay to perform dangerous jobs.
2. According to the *Economist* article on “Why trade is good for you,”
 - a. all countries, both weak and strong, will benefit by specializing in the production of goods in which it has a comparative advantage.
 - b. every country must have a comparative advantage in the production of something.
 - c. economists generally agree that free international trade is better than protective tariffs and quota.
 - d. all of the above.
3. According to the simple theory of supply and demand, an increase in the minimum wage will
 - a. lead to an increase in the supply of jobs.
 - b. increase the income of teenage workers if the demand for their services is elastic.
 - c. generate unemployment.
 - d. none of the above.
4. Suppose that Smith’s utility function is $U(X,Y) = X^2Y^2$. Then
 - a. her utility function violates the Law of Diminishing Marginal Utility.
 - b. her demand function for X will violate the Law of Demand.
 - c. her utility function satisfies the Law of Comparative Advantages.
 - d. all of the above.

II. Graphs

5. The first graph shows the utility possibility frontier involved in allocating a good between Alice and Bobby. Mark with an **E** the point that would give equal satisfaction to both citizens. Mark with a **B** the point that would satisfy Jeremy Bentham's objective of maximizing the sum total of satisfaction. Mark with an **R**, for John Rawls, the allocation that would maximize the position of the least advantaged.

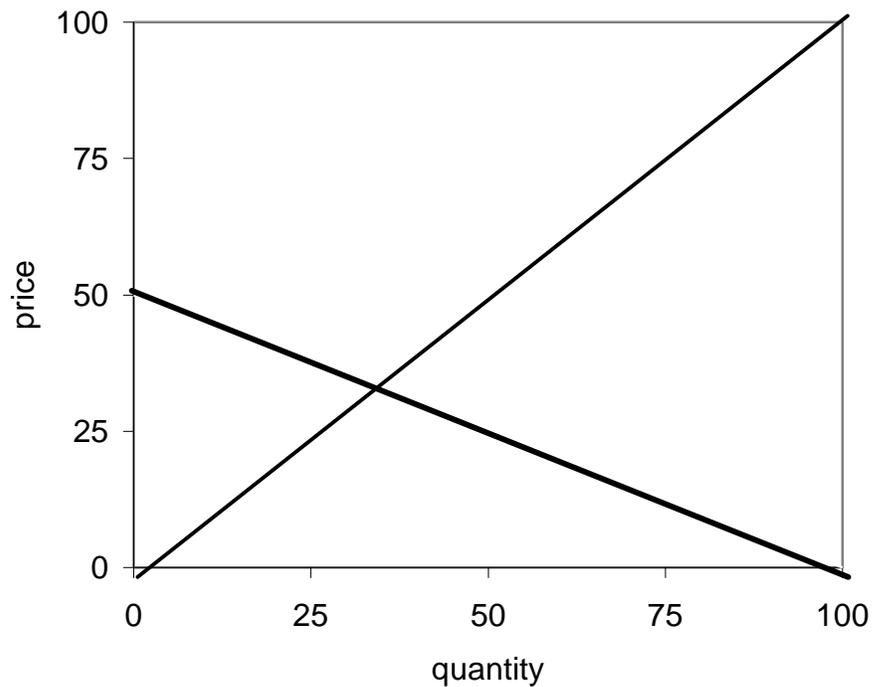


6. The graph on the next page shows the demand and supply curve for prescription drugs. (Numbers read off graph will be accurate enough)

- The equilibrium price of prescription drugs will be \$_____.
- The equilibrium quantity purchased will be _____.
- The consumer surplus will be _____
- The elasticity of demand at the equilibrium point will be _____. Explain

7. Suppose the newly elected president decides to pay all citizens a subsidy of \$25 on each prescription that they purchase. Use the graph to determine the effects of the subsidy:

- a. Consumers will have to pay a price of \$____ per prescription. Explain
- b. The equilibrium quantity purchased will be _____.
- c. The subsidy will cost the government \$_____. Explain
- d. Carefully indicate on the graph the deadweight loss (excess burden) generated by the subsidy.



4. Explain in just two or three sentences the major limitation(s) involved in using the demand and supply apparatus to analyze the market for pharmaceuticals:

Honors Option:

Suppose that Britain has production possibility frontier is given by the function $X_B^2 + Y_B^2 = 49$ and Portugal also has production function $X_P^2 + Y_P^2 = 49$.

- a. Determine the production possibility function for the combined outputs of the two countries.
- b. A member of Britain's Parliament argues that trade would never be beneficial between the two countries because they have the same production possibility frontier. Is this correct? Explain.