

Online Homework System

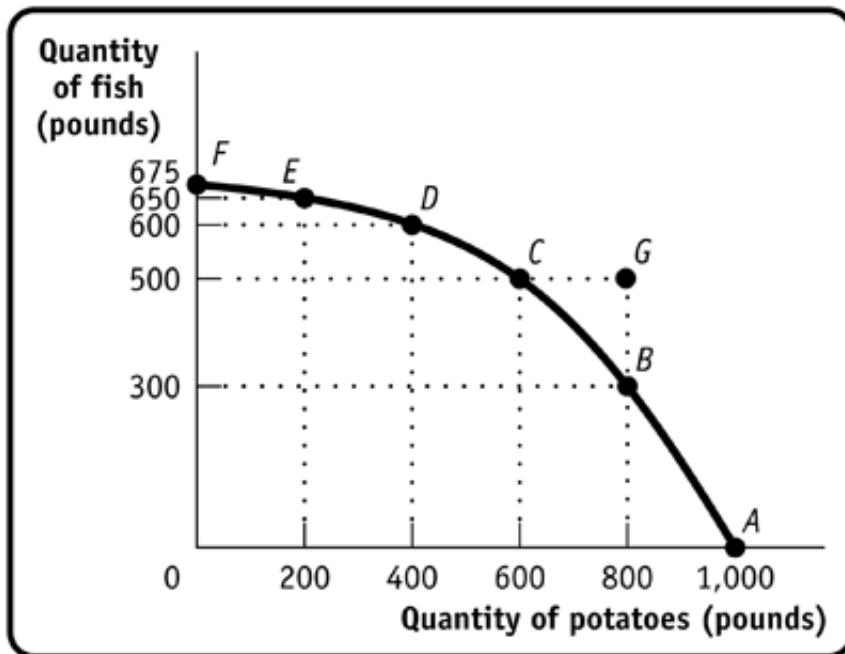
Assignment Worksheet
8/28/06 - 1:33 PM

Name: _____
 Class #: _____
 Instructor: Jennifer Warlick

Class: Micro Econ
 Section #: _____
 Assignment: Homework2

Question 1: (5 points)

Problem 1 -- Atlantis is a small, isolated island in the South Atlantic. The inhabitants grow potatoes and catch fresh fish. The accompanying table shows the maximum annual output combinations of potatoes and fish that can be produced.



- The diagram shows the production possibility frontier for Atlantis, with potatoes on the horizontal axis and fish on the vertical axis. The maximum possible production of potatoes for Atlantis is _____ pounds.
- Can Atlantis produce 500 pounds of fish and 800 pounds of potatoes?
 - Yes
 - No
- The opportunity cost of increasing the annual output of potatoes from 200 to 400 pounds is _____ pounds of fish.
- The opportunity cost of increasing the annual output of potatoes from 400 to 600 pounds is _____ pounds of fish.
- What happens to the slope of the production possibilities frontier as the economy moves from point C to point A?
 - The slope increases.
 - The slope decreases.

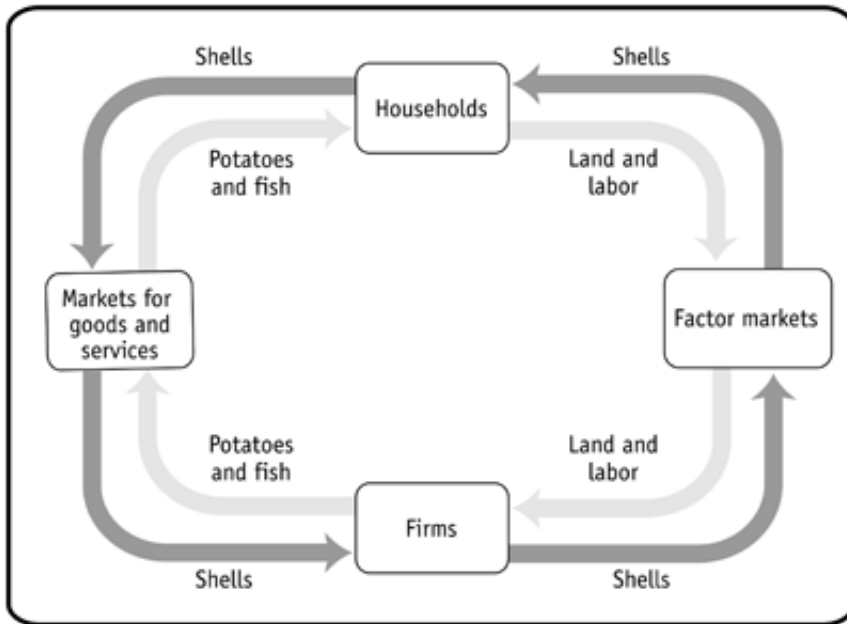
Question 2: (2 points)

Problem 3 -- Peter Pundit, an economics reporter, states that the European Union (EU) is increasing its productivity very rapidly in all industries. He claims that this productivity advance is so rapid that output from the EU in these industries will soon exceed that of the United States and, as a result, the United States will no longer benefit from trade with the EU.

- a. Do you think Peter Pundit is correct or not? If not, what do you think is the source of his mistake?
Peter is _____. The increase in output might give the EU a(n) _____ but not necessarily a(n) _____ advantage.
- b. If the EU and the United States continue to trade, what do you think will characterize the goods that the EU exports to the United States and the goods that the United States exports to the EU? Both the EU and the United States will export those goods in which it has a(n) _____ advantage.

Question 3: (3 points)

Problem 5 -- The economy of Atlantis has developed, and the inhabitants now use money in the form of cowry shells. The diagram is a circular-flow diagram showing households and firms.



Firms produce potatoes and fish, and households buy potatoes and fish. Households also provide the land and labor to firms. Identify which markets would show the FIRST effect of each of the following impacts:

- a. A devastating hurricane floods many of the potato fields.
 - (a) markets for goods and services
 - (b) factor markets

- b. A very productive fishing season yields a very large number of fish caught.
 - (a) markets for goods and services
 - (b) factor markets

- c. The inhabitants of Atlantis discover the Macarena and spend several days a month at dancing festivals.
 - (a) markets for goods and services
 - (b) factor markets

Question 4: (2 points)

Problem 7 -- Your dormitory roommate plays loud music most of the time; you, however, would prefer more peace and quiet. You suggest that she buy some earphones. She responds that although she would be happy to use earphones, she has many other things that she would prefer to spend her money on right now. You discuss this situation with a friend who is an economics major. An exchange takes place below.

Which parts of this conversation contain positive statements and which parts contain normative statements?

Your friend: *How much would it cost to buy earphones?*

You: \$15. _____

Your friend: *How much do you value having some peace and quiet for the rest of the semester?*

You: \$30.

Your friend: *It is efficient for you to buy the earphones and give them to your roommate. You gain more than you lose; the benefit exceeds the cost.* _____ *You should do that.* _____

You: *It just isn't fair that I have to pay for the earphones when I'm not the one making the noise.* _____

Question 5: (5 points)

Problem 9 -- Are the following statements true or false?

- a. "When people must pay higher taxes on their wage earnings, it reduces their incentive to work" is a positive statement.
 (a) True
 (b) False
- b. "We should lower taxes to encourage more work" is a positive statement.
 (a) True
 (b) False
- c. Economics cannot always be used to completely decide what society ought to do.
 (a) True
 (b) False
- d. "The system of public education in this country generates greater benefits to society than the cost of running the system" is a normative statement.
 (a) True
 (b) False
- e. All disagreements among economists are generated by the media.

- (a) True
- (b) False

Question 6: (1 point)

Problem 11 -- Economists who work for the government are often called on to make policy recommendations. In order to assess those recommendations, it is important for the public to be able to differentiate normative statements from positive statements. Normative statements can depend upon _____ whereas positive statements are based on _____ .

Question 7: (1 point)

Problem 13 -- Assess the following statement: "If economists just had enough data, they could solve all policy questions in a way that maximizes the social good. There would be no need for divisive political debates, such as whether the government should provide free medical care for all." True or false?

- (a) True
- (b) False

