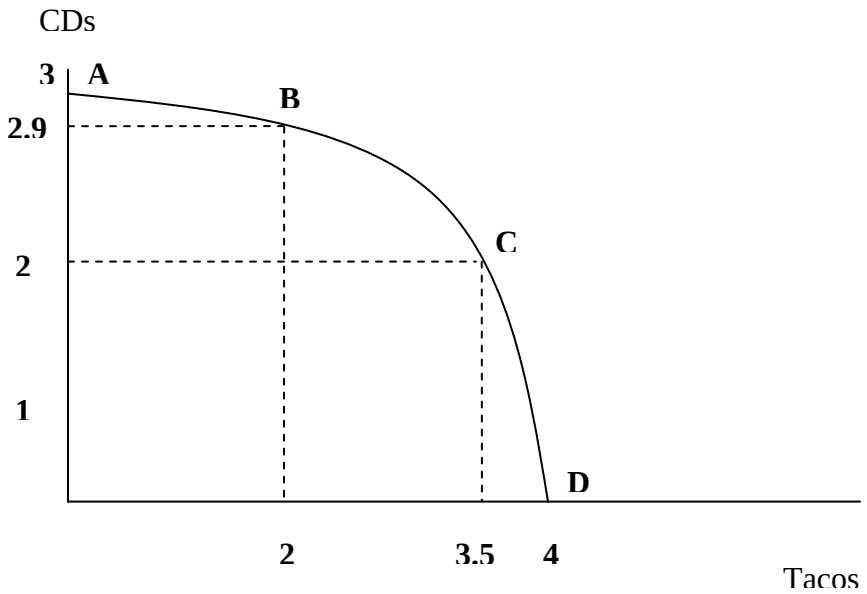
Practice Questions #1
Principles of Microeconomics
Professor Hungerman
Questions 1-6 Must be Turned In

Consider the following PPF



1. Describe marginal costs along this PPF

2. What is the set of feasible choices in this graph? Is it convex?

3. What production choices satisfy productive efficiency?

4. Calculate the opportunity cost (OC) of going from point A to point B

5. Calculate the OC of going from point A to point C

6. Calculate the marginal costs of each item between points A&B, B&C, and C&D.

Points	MC of Tacos	MC of CDs
A-B		
B-C		
C-D		

7. Graph marginal costs in the above table. How are they related?

8. Understand how the PPF relates to the various concepts we have discussed in class (scarcity, tradeoffs, opportunity cost).

Efficiency.

1. Problem 3 in Chapter 2 of the book (page 51)

2. Suppose that a country was thinking about producing two goods, *x* and *y*. Further more, suppose that the Marginal Cost of *x,* in terms of foregone units of *y*, is *decreasing* as *x* increases, and that the Marginal Benefit of *x* is *increasing.* First, explain why it might be unusual for Marginal Cost to fall and Marginal Benefit to rise. Then, figure out what level of *x* this country would choose to produce.

3. Consider the scenario in class where Jeb and Rachel are trying to split up $100; both of them like money. Then along comes the big bad cat Rafiki, who eats money (but is not made better off by doing so). Is there any Pareto Efficient outcome that involves Rafiki eating money? What if Rafiki was better off the more money he ate?

Specialization and Trade.

Suppose there are two countries, England and Portugal. Each country produces wine and cloth. (This is a real example of specialization and trade that comes from David Ricardo, the great economist who first explored the concept of Comparative Advantage in the 1800s). If England produces no wine, it can produce 10 yards of cloth. England's marginal cost of a yard of cloth is constant and equals one-half a gallon of wine. If Portugal produces no wine, then Portugal can produce 6 yards of cloth. If Portugal produces no cloth, it can produce 4 gallons of wine. The marginal cost of each gallon of wine in Portugal is constant.

1. Does either country have an absolute advantage?

2. Calculate each country's marginal cost of producing each good.

3. Suppose England produces and consumes 5 yards of cloth and 2.5 gallons of wine and Portugal produces and consumes 3 yards of cloth and 2 gallons of wine. Is this a productive-efficient outcome? Is it a Pareto-Efficient outcome?