

Quiz 1

Write your name at the top. Read the questions and table carefully

Question 1

Assume that Hiram and Angela can switch between producing wheat and producing beef at a constant rate

Minutes needed to make	Bushel of Wheat	Pound of Beef
Hiram	10	12
Angela	6	10

- i. What is Hiram's opportunity cost of 1 lb of beef? Angela's?
- ii. Hiram has an absolute advantage in the production of ...
- iii. Angela has a comparative advantage in ...
- iv. At which of the following prices would both Hiram and Angela gain from trade with each other?
 - a. 12 bushels of wheat for 6 pounds of beef
 - b. 12 bushels of wheat for 8 pounds of beef
 - c. 12 bushels of wheat for 12 pounds of beef
 - d. Brad and Theresa could not both gain from trade with each other at any price

Question 2

Although he was a prolific artist, Pablo Picasso painted only 1,000 canvases during his "Blue Period." Picasso is now dead, and all of his Blue Period works are currently on display in museums and private galleries throughout Europe and the United States.

- a. Draw a supply curve for Picasso Blue Period works. Why is this supply curve different from ones you have seen?
- b. Given the supply curve from part a, the price of a Picasso Blue Period work will be entirely dependent on what factor(s)? Draw a diagram showing how the equilibrium price of such a work is determined.
- c. Suppose rich art collectors decide that it is essential to acquire Picasso Blue Period art for their collections. Show the impact of this on the market for these paintings.