If you can do these questions, you should be able to get an A on Test 1.

I'll post the answers, but not yet. If you just look at the answers without even trying the questions, you won't learn anything.

1. The following table shows the production possibilities for Canada and the US, each of which produces two goods, guns and butter. Also reported is the time it takes for each country to produce the given quantities.

	GUNS	BUTTER	HOURS to PROUDUCE
US	80	100	4
CANADA	200	300	10

a) Compute the opportunity costs of each good for each country.

b) Does either country have a comparative advantage in the production of either good?

c) Does either country have an absolute advantage in the production of either good?

d) Should trade occur? Why or why not?

e) Suppose Canada was currently producing and consuming 80 butter and 120 guns. Is Canada productively efficient? (Hint: draw the PPF)

2. The daily market demand for cell phones is $Qd = 500 – 3P$ and supply is $Qs = P – 20$.

a) What is equilibrium price and quantity?

b) Suppose price changes from equilibrium price to \$100. What is the elasticity of demand?

c) Given your answer in b), *if* a firm was able to change its price, what would it want to do if it wanted to increase its total revenue?

d) Which is more elastic, demand or supply? (Hint: draw the curves accurately)

e) What is the value of producer surplus when the market is in equilibrium?

f) If price is \$100, what is the deadweight loss in total surplus?