

INTRODUCTION TO ECONOMICS
BUSINESS ADMINISTRATION DEGREE - YEAR 2016

PRACTICE SHEET 1

1. What is society's opportunity cost when it subsidizes 66% of the real cost of your bachelor's studies?
2. Use the concept of opportunity cost to explain the following cases:
 - (a) When there is a bad situation in the labor market, people who want to do a master's degree increase.
 - (b) In a recession, people who decide to fix things by themselves at home increase.
 - (c) There are more gardens in the outskirts than in the downtown.
 - (d) CEOs (Chief Executive Officers) often buy in 24-hours shops, although these are more expensive than supermarkets.
3. Some students leave the exam room early, while others stay until time is up. Do you think the time to do the exam is an effective constraint for all the students?
4. Frank, Lindsay and Peter have 7 hours to study this weekend. They have decided just to study Introduction to Economics (IE) and Algebra (A).
 - (a) Depict the hours devoted to the study IE in the x-axis and those to study A in the y-axis. Draw the choice-possibility set for the three students.
 - (b) Imagine Frank devotes 4 hours to each subject. Plot his decision in the graph. Is it feasible? Is his constraint effective?
 - (c) Imagine Lindsay devotes 4 hours to IE and 3 hours to A. Plot her decision in the graph. Is it feasible? Is her constraint effective?
 - (d) Imagine Peter devotes 3 hours to IE and 3 hours to A. Plot his decision in the graph. Is it feasible? Is his constraint effective?
5. Shannon has three alternative plans for Sunday afternoon:
 - Staying at home studying IE for a test on Monday.
 - Going to a concert by her favorite group. She has not bought the ticket yet, and the price of the ticket is 30. She values the satisfaction of attending the concert on 70.
 - Going to a party at a friend's house. The party is free of charge and she values the satisfaction of going to the party in 45.

What is Shannon's opportunity cost of staying at home studying IE?

6. Using the terms **scarcity**, **opportunity cost** and **equity**, comment the following article, published on August 2009. (referring to Argentina):

“A week after President Cristina Fernandez announced a plan to combat poverty and unemployment through an investment of 1.500 billion pesos (about 270 million euros), it follows that there is no money for these meals.

Leah Mia, coordinator of the Caritas aid programs, reported that at least 40 of the 60 venues that the organization has distributed by Chaco, a province in northern Argentina, are facing imminent closure because in the last two months the Ministry of Development has transferred them not a peso. The government contributed 1.85 pesos per serving of food. Caritas completed the remainder through collections and donations.

The order of priorities in distributing the tax money does not always conform to the principles of social justice that Cristina Fernandez defends from the gallery. Four days ago, the government signed an agreement with the Argentina Football Association (AFA) for soccer games to be transmitted free of charge by air channels and to cover the deficits that have accumulated clubs.

The agreement involves an outlay of 600 million pesos (about 10.7 million euros). A sum that would be enough to feed the hungry mouths of Chaco, where 35% of children are malnourished, and of Santiago del Estero, Formosa, Tucumán, where 15% of the population depends on the soup kitchens to feed.”