

Chapters 1 and 2 Practice Problems

Elements of Microeconomics - Section 4

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Question 1: Cost

You are trying to decide whether to go on a beach trip during spring break. What costs would you need to consider in making this decision?

Question 2: PPF of a firm

Let's start an Italian restaurant that makes pizzas and sandwiches.

1. What will our production possibility frontier look like?
2. Why will it take the shape that it has?
3. How can we read the opportunity cost? Does it matter which part of the PPF we look at?
4. Why might the shape change over time?

Question 3: CPF of a consumer

Now suppose we are *going* to the Italian restaurant with a group of friends, and we want to decide what to order. Pizzas are \$10, sandwiches are \$5, and we have \$100 to spend.

1. What will our consumption possibility frontier look like?
2. What is the opportunity cost of a pizza? Does it matter where on the CPF we are?
3. What will happen to the CPF if we have \$200 to spend?
4. What will happen to the CPF if the price of sandwiches increases to \$10?

Question 4: Italian restaurant economy

Suppose the entire economy consists of Italian restaurants: during half of the week we work in one, and during the other half we buy food from them.

1. What does the circular-flow diagram look like?
2. What is missing from our model?