

ECO 181 Summer 2023 - Homework #01

Yushang Wei

The PDF version is more comprehensive and includes additional practice problems. You do not need to submit this version of the homework. How to do and submit the homework? Answer: Please read the announcement !

Q1.1 Resources are:

- A. scarce for households but plentiful for economies.
- B. plentiful for households but scarce for economies.
- C. scarce for households and scarce for economies.
- D. plentiful for households and plentiful for economies.

Q1.2 The terms equality and efficiency are similar in that they both refer to benefits to society. However, they are different in that

- A. equality refers to uniform distribution of those benefits and efficiency refers to maximizing benefits from scarce resources.
- B. equality refers to maximizing benefits from scarce resources and efficiency refers to uniform distribution of those benefits.
- C. equality refers to everyone facing identical tradeoffs and efficiency refers to the opportunity cost of the benefits.
- D. equality refers to the opportunity cost of the benefits and efficiency refers to everyone facing identical tradeoffs.

Q1.3 Consider Miray's decision to go to college. If she goes to college, she will spend \$24,000 on tuition, \$12,000 on room and board, and \$1,900 on books. If she does not go to college, she will earn \$16,000 working in a store and spend \$8,000 on room and board. Miray's cost(include opportunity cost) of going to college is _____

Refer to the Figure 1, please answer Q1.4-Q1.5

Q1.4 If this economy devotes all of its resources to the production of washers, then it will produce

- A. 80 dryers and 0 washers.
- B. 50 dryers and 40 washers.
- C. 0 dryers and 100 washers.
- D. 60 dryers and 80 washers.

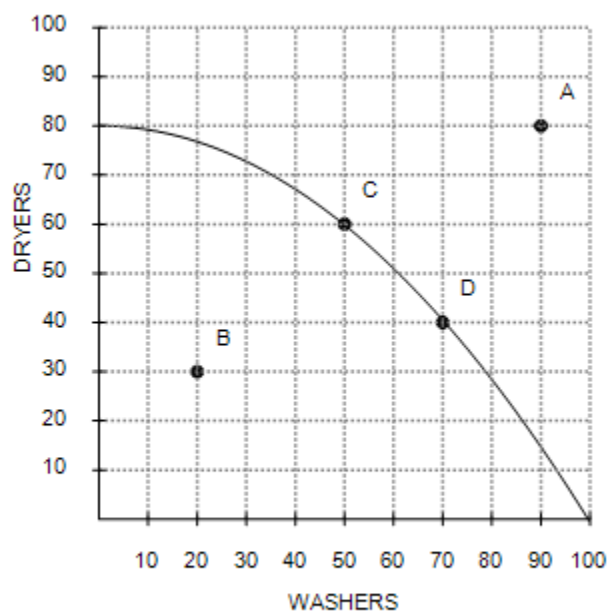


Figure 1: PPF - dryers and washers

Q1.5 The opportunity cost of increasing the production of washers from 50 to 70 (point D to point C) is _____ dryers.

Q1.6 Which of the following is an example of a normative, as opposed to a positive, statement?

- A. The social security system is a good system and it deserves to be preserved as it is.

- B. A decrease in the minimum wage would decrease unemployment.
- C. The elimination of trade restrictions would increase an economy's standard of living.
- D. Following the most recent recession, the economy is recovering at a slower than usual pace.

Q1.7 Which of the following transactions does not take place in the markets for factors of production in the circular-flow diagram?

- A. A landowner leases land to a farmer.
- B. A farmer hires a teenager to help with harvest.
- C. Amari receives a salary for his work as an analyst for an investment firm.
- D. Nia buys two business suits to wear to her job as a Chief Information Officer.

Refer to the table, please answer Q1.8-Q1.12

Suppose Sam is the owner of a coffee shop and can produce two outputs: coffees and muffins. If Sam works 8 hours per day, the Production Possibility Frontier (PPF) for these two outputs per day is given in the following table:

number of coffees	number of muffins
15	0
12	1
9	2
6	3
3	4
0	5

Q1.8 Graph Sam's PPF.

Q1.9 Does Sam's PPF exhibit increasing, decreasing, or constant opportunity costs (circle one)? Explain.

Q1.10 What is Sam's opportunity cost for each muffin produced?

Q1.11 What would you say about Sam's production if 3 muffins and 2 coffees were produced in a day? Would he be operating on his PPF?

Q1.12 Suppose the coffee shop hires an assistant to help Sam produce both goods. Please sketch a new Production Possibility Frontier (PPF) and explain why.

Q1.13 The law of demand says that as the price of a good increases, the quantity demanded of the good ____; as the price of a good decreases, the quantity of the good ____.

Q1.14 Which of the following demonstrates the law of demand?

- A. After Roberto got a raise at work, he bought more pretzels at \$1.50 per pretzel than he did before his raise.
- B. Benjamin buys fewer muffins at \$0.75 per muffin than at \$1 per muffin, other things equal.
- C. Ashlyn buys more donut holes at \$0.25 per donut hole than at \$0.50 per donut hole, other things equal.
- D. Tiana buys fewer Snickers at \$0.60 per candy bar after the price of M&Ms falls to \$0.50 per bag.

Q1.15 (short answer) What causes a change in the demand for a good? How is a change in demand represented on a graph?

Q1.16 (short answer) What causes a change in the quantity demanded of a good? How is a change in quantity demanded represented on a graph?

Q1.17 The movement from point A to point B on the Figure 2 shows

- A. a decrease in demand.
- B. an increase in demand.
- C. a decrease in quantity demanded.
- D. an increase in quantity demanded.

Q1.18 The price of gasoline increases from 2 dollars to 4 dollars per gallon. The demand for large sport utility vehicles(SUVs) _____. The demand curve shifts to the _____.

Q1.19 Government data show that the incomes of Americans are expected to rise faster than ever over the next year. The demand for vehicles _____. The demand curve shifts to the _____.

Q1.20 The prices of SUVs increase. The demand for SUVs _____.

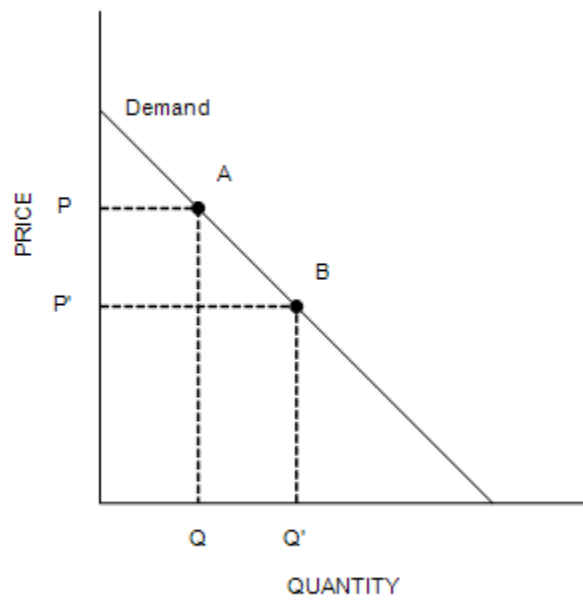


Figure 2: Demand Curve