I. Multiple Choice (15 questions - 4 points apiece) Select the best answer to each of the following questions. Place your response to each question in the space provided on the last page. Only answers placed in these blanks will receive consideration.

1) Ex-President Carter’s recommendation of registering women for the draft raised an uproar around the country. One opponent of this proposal stated: "Women are needed at home to rear the children, let the men fight the wars." This opponent implied that:

a. the opportunity cost of drafting men and women is equal.
b. the opportunity cost associated with drafting men is higher than the opportunity cost of drafting women.
c. the opportunity cost associated with drafting women is higher than the opportunity cost of drafting men.
d. the opportunity cost associated with drafting men and women is irrelevant, because if women are drafted they cannot be at home rearing the children.

2) Which of the following accurately describes the fundamental problem at the core of all economic analysis? The fundamental problem is:

a. understanding how resources can be used without creating scarcity.
b. finding the way in which society can eliminate scarcity.
c. the creation of nonscarce goods and the elimination of scarce goods.
d. understanding how scarce resources are allocated among competing uses to best satisfy society’s unlimited wants.
3) If an individual’s demand for frozen dinners increases when the price of steak rises, we would infer that:

a. steak is a normal good and frozen dinners an inferior good for this person.
b. steak and frozen dinners are substitutes for this person.
c. this individual’s limit prices for steak have fallen.
d. steak and frozen dinners are complements for this person.

4) On the New York Stock Exchange, the current price per share for stock of the Boston Celtics, a NBA basketball team, is $8.25. At that price the total quantity of shares demanded is 2,500, while the total quantity supplied for trade is 2,000. It follows that

a. $8.25 is the equilibrium price per share.
b. there will be downward pressure on the price of shares of the Boston Celtics.
c. there is a surplus of shares of the Boston Celtics on the stock exchange.
d. there is a shortage of shares of the Boston Celtics on the stock exchange.

5) An increase in the rent of two bedroom apartments in Bloomington is likely to:

a. increase the price of living in a dormitory at Indiana University.
b. increase the demand for apartment rentals in Bloomington.
c. decrease the supply of dormitory rooms at Indiana University.
d. shift the demand curve for dormitory rooms to the left.

6) Suppose a political candidate in the upcoming November elections promises voters more funding for AIDS research and child care, and assures them they will not have to sacrifice any other goods or services to obtain the additional programs.

a. This may be possible if the economy has unemployed resources.
b. This is possible only in a fully employed economy.
c. This is possible if the economy is producing on its production possibilities frontier.
d. This is not possible.

7) This year the demand for new homes increases while at the same time the supply also increases. As a result of these changes in the market for new homes you can conclude that:
a. the equilibrium price of new homes will rise.
b. the equilibrium price of new homes will fall.
c. the equilibrium number of homes sold will decrease.
d. the equilibrium number of new homes will increase.

8) Some time ago the government of China required many highly skilled technicians and scientists to engage in unskilled agricultural labor in order to develop "proper social attitudes." This policy caused China to produce

a. at an appropriate point along its production possibilities frontier (PPF).
b. outside its PPF with respect to food, but inside the PPF with respect to high-technology goods.
c. inside its PPF with respect to food, but outside the PPF with respect to high-technology goods.
d. inside its PPF.

9) Recent health studies claim that consuming a glass of wine with afternoon or evening meals significantly reduces the risk of heart disease. If people believe this new information, what is likely to occur to the short-run equilibrium in the wine market?

a. Equilibrium price and quantity will both fall due to a decrease in the demand for wine.
b. Equilibrium price and quantity will both rise due to an increase in the demand for wine.
c. Equilibrium price will rise while quantity will fall due to a decrease in the supply of wine.
d. Equilibrium price will fall while quantity will rise due to an increase in the supply of wine.

10) Aglets are the plastic tips on shoelaces that make it easier to lace your shoes. The demand for aglets is probably

a. inelastic.
b. unit elastic.
c. elastic but not perfectly elastic.
d. perfectly elastic.

11) If the owner of an ice cream store on Kirkwood Avenue charges $1.20 for an ice cream cone her total revenue is $540 per day. If she lowers the price to $1.00, total revenue falls to $500 per day. The demand for ice cream on Kirkwood Avenue is

a. elastic.
b. inelastic.
c. unitary elastic.
d. neither elastic nor inelastic because this situation violates the law of demand.

12) Suppose that Campbell’s, a major food manufacturer in the United States, can produce either canned soup or canned tomato juice. As a result of an increase in the cost of tomatoes, Campbell’s decides to produce more soup and less tomato juice. You correctly explain this by saying

a. the supply of tomato juice decreased and the supply of soup increased.
b. there has been a decrease in the quantity supplied of tomato juice and an increase in the quantity supplied of soup.
c. there has been a decrease in the quantity supplied of tomato juice and an increase in the supply of soup.
d. the supply of tomato juice decreased and the quantity supplied of soup increased.

13) Assume that you are scheduled to take 3 exams this upcoming Monday. Because you want to go to the IU-Wisconsin football game this Saturday (and thus take the day off from studying), you only have 7 hours available on Sunday to study for all three exams. If your goal is to maximize the combined point total from all three exams, given the information contained in the following table, how should you scare study time?

<table>
<thead>
<tr>
<th>History</th>
<th>Mathematics</th>
<th>Spanish</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hours Studied</td>
<td>Expected Score</td>
<td>Hours Studied</td>
</tr>
<tr>
<td>0</td>
<td>18</td>
<td>0</td>
</tr>
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<td>4</td>
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<tr>
<td>5</td>
<td>100</td>
<td>5</td>
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</tbody>
</table>
10) An advance in technology makes it possible to produce 50 percent more of all goods. With these expanded possibilities, people increase the number of vacations and their consumption of food by 50 percent. As a result of these two changes, the opportunity cost of a unit of food ______ and the opportunity cost of a vacation ______.

a. decreases, decreases.
b. increases, decreases.
c. decreases, increases.
d. does not change, does not change.

15) Joanna and David are farmers who produce beef and corn. In a year, Joanna can produce 10 tons of beef or 60 bushels of corn, while David can produce 10 tons of beef or 50 bushels of corn. To maximize their total output of beef and corn,

a. only Joanna produces because she has an absolute advantage over David.
b. David produces beef and Joanna produces corn.
c. Joanna produces beef and David produces corn.
d. Joanna and David each spend half of their time producing beef and half of their time producing corn.

II. Analytical (20 points) Answer the following question, using the chart provided below. Circle your final answer to each question. Partial credit will be given. If you need more room, please use the backside of this page.

Consider the market for loanable funds in the United States during 1996. Loanable funds are funds made available by banks for the purpose of providing loans. Banks obtain such funds from private savings deposits. Thus, individuals supply the money for these funds through their savings deposits, and banks demand such money.

<table>
<thead>
<tr>
<th>Interest rate</th>
<th>Quantity Demanded ($billion)</th>
<th>Quantity Supplied ($billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td>10</td>
<td>2</td>
</tr>
</tbody>
</table>
a. (2 points) Draw the graph representing the market for loanable funds. Label the demand curve D1 and the supply curve S1.
b. (3 points) Given D1 and S1, if the banks charged 10% interest on loans, what would the situation be in the market. Is there a shortage or a surplus? By how much? How should price respond to this situation?
c. (2 points) Given D1 and S1, what is the equilibrium rate of interest in this market.
d. (3 points) Suppose, in order to finance the budget deficit, the US Treasury increases its borrowing of loanable funds by $4 billion at each interest rate. Draw the new demand curve, labeling it D2. What is the new equilibrium interest rate and equilibrium quantity of loans made?
e. (5 points) Given your answer in (d), what do you think happens to the market for new homes? Draw the graph representing the new housing market. Show what happens to new home prices and equilibrium quantity of homes resulting from the US Treasury’s action.
f. (5 points) Refer back to the initial supply and demand curves (S1, D1). Now, in relation to these curves, suppose that the United States government lowers the income tax rate charged to income earned by savings. How does this affect the loanable funds market? Does supply or demand change? Draw the new curve that results from this tax rate decrease, labeling the new curve X. What happens to equilibrium quantity of loans and the equilibrium interest rate?