

Answer Practice Exam 1

1. D
2. B
3. B
4. C
5. C
6. D
7. A
8. B
9. A
10. B
11. B
12. C
13. C
14. B
15. B
16. A
17. B
18. C
19. The additional utility (benefit) one gets declines with additional units of a good.
20. Resources are differentially productive when goods are being produced. What this means is that we know that resources are not identical, and therefore, some are better suited for producing one good than another. When these resources are switched from producing items for which they are well suited to producing goods for which they are ill suited, the opportunity cost of increasing the output of these goods rises.
21. WE DIDN'T COVER – NOT RESPONSIBLE FOR THIS
22. It is important to know how responsive quantity demanded is to a change in price.
23. Answers depend – explanation is important: If used cars are an *inferior good* then as income falls, demand increases (if it is a *normal good* then demand decreases). Households supply cars, so they may increase supply if they sell additional cars to make money – or they may decrease supply, not selling their cars as quickly (holding on to their cars rather than buying a new one).
24. Equate MU/P → 5 slices and 8 cans
25. (A) Bob – cookies; Fred – pizza
(B) $\frac{2}{3}$ cookies < P pizza < 5 cookies (be sure they are reciprocals); Ppizza = 2 cookies and Pcookies – $\frac{1}{2}$ pizza
(C) Bob initially has 50 cookies and 0 pizza, Fred has 0 cookies and 30 pizzas. One example is Bob sells 20 cookies for 10 pizzas. Now Bob has 30 cookies and 10 pizzas (better than before because if he had 10 pizzas he would have to produce 0 cookies). Now Fred has 20 cookies and 20 pizzas (better than before because if he had 20 cookies he would have 0 pizzas).