

**Quiz 2**

Microeconomics - EC 2106  
Spring Semester 2000  
Instructor: Robert McNab

Name: \_\_\_\_\_

Score: \_\_\_\_\_

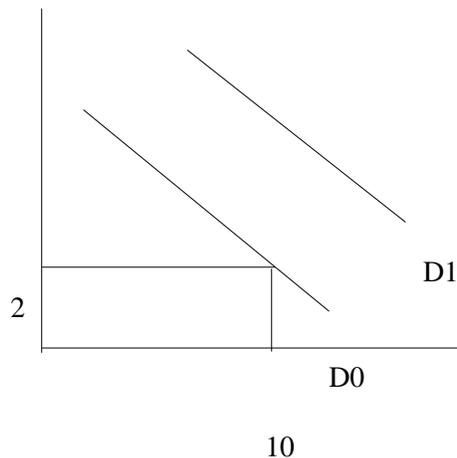
INSTRUCTIONS: Read each question carefully. For multiple choice questions, select the most accurate answer. When required, you must show your work to receive full credit. Use the back of the quiz for extended answers. 10 points.

1. Assume that New Zealand's maximum production of wool and milk is such that New Zealand can produce 10 million lbs of wool and no milk, 25 million gallons of milk and no wool, or some combination of the two. (1) Illustrate using an increasing cost PPF. (2) What is the opportunity cost of 1 lb of wool in terms of milk? (3) What is the difference between a constant cost PPF and an increasing cost PPF? 3 points?

Answer: (1) See class notes for illustration of increasing cost (concave) PPF  
(2) 1 lb wool = 2.5 gallons milk  
(3) A constant cost PPF is based upon the assumption that the opportunity cost between the two goods is fixed throughout the range of production. An increasing cost PPF allows for the possibility that, past some point, the opportunity cost of increasing one good's production increases.

2. Assume that the demand for milk in New Zealand is such that at \$2 a gallon, a quantity of 10 million gallons is demanded; at \$2.50 a gallon, a quantity of 8 million gallons is demanded; and at \$3 a gallon, a quantity of 6 million gallons is demanded. (1) Illustrate the market demand curve for milk in New Zealand and (2) illustrate what would occur if the new research proved that drinking a glass of milk a day extended one's life by 5 years. 2 points

Answer:



Assumption 1: Assume that the market for gasoline in Atlanta is in equilibrium and that the average price of gasoline in Atlanta is \$1.20 a gallon with a quantity of 12.5 gallons demanded weekly.

3. Using Assumption 1, what would be the impact on market price and quantity if the costs of refining petroleum into gasoline increased? 1 point

Answer: Equilibrium price increases and quantity decreases

Why: Resource costs increase, which reduces supply.

4. Using Assumption 1, what would be the impact on market price and quantity if consumers income increased and a technology made it cheaper to produce gasoline? 2 points

Answer: Price is dependent upon the magnitude of the shifts in the Demand and Supply curves  
Quantity increases

Why: Increase in consumer income increases demand for normal goods, increase in technology increases supply.

5. Using Assumption 1, what would be the impact on the market price and quantity if consumers now preferred to use mass transit and producers expectations about the future declined? 2 points

Answer: Price is dependent upon the magnitude of the shifts in the Demand and Supply curves  
Quantity decreases

Why: Decrease in consumer preferences for auto transit decreases Demand  
Decrease in expectations decreases Supply