

Quiz 1

Microeconomics - EC 2106

Instructor: Robert McNab

Name: _____

Score: _____

INSTRUCTIONS: Please answer all questions to the best of your ability within the allotted time of 20 minutes. You are required to show your work to receive credit. For multiple choice and true/false questions, please circle the appropriate answer. 10 possible points.

1. Indicate whether the following statements represent a normative (N) or positive (P) statement. One point apiece.
 - P N The United States should tax all individuals at the same personal income tax rate in the interests of social justice.
 - P N Increasing the minimum wage is likely to lead to increases in unemployment for lower-skilled workers.
 - P N The introduction of the new European currency is likely to lower costs for European firms.
2. Indicate whether the statements below represent allocative efficiency (A), productive efficiency (P), or distributive efficiency (D). One point apiece.
 - A P D One of the faults of central planning was that the demands of the people for specific products were ignored and heavy machinery and weaponry was produced instead of consumer products.
 - A P D The decline of the United States' auto industry in the late 1970's can be partially attributed to a failure to invest in new technologies and techniques to ensure that cars were produced at the cheapest possible cost in terms of resources.
 - A P D Individuals who place the highest relative value on certain goods should be the ones who consume those goods.
3. Use the following information to graph the Production Possibilities Frontier for the United States on the graph provided on page 2 of this quiz. Two points.

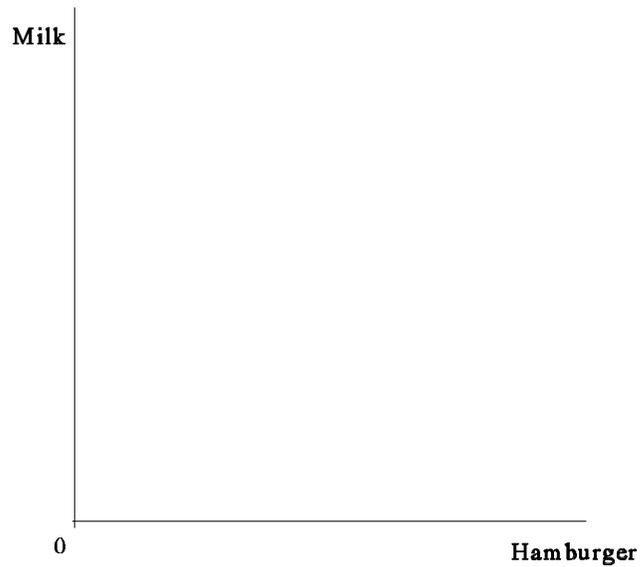
When 2 million gallons of milk are produced, 0 pounds of hamburger are produced.

When 1.5 million gallons of milk are produced, 100,000 pounds of hamburger are produced.

When 1 million gallons of milk are produced, 150,000 pounds of hamburger are produced.

When 500,000 gallons of milk are produced, 180,000 pounds of hamburger are produced.

When 0 gallons of milk are produced, 200,000 pounds of hamburger are produced.



4. On the graph, draw a point for the production of 1.5 million gallons of milk and 25,000 gallons of hamburger and label this point Z. 1 point apiece.

a. Is Point Z obtainable or unobtainable? _____

b. Is Point Z represent an efficient or inefficient use of resources? _____

5. Describe in your own words why Production Possibilities Frontiers are concave to the origin, that is, the PPF 'bows' outward. 1 point.

Answer Key

1. Normative, Positive, Positive

2. Allocative, Productive, Distributive

3. The student should recognize the presence of diminishing marginal returns and draw a concave PPF

4. Obtainable, Inefficient

5. Diminishing marginal returns, that is, as any activity is extended, past some point, the marginal return for that activity declines