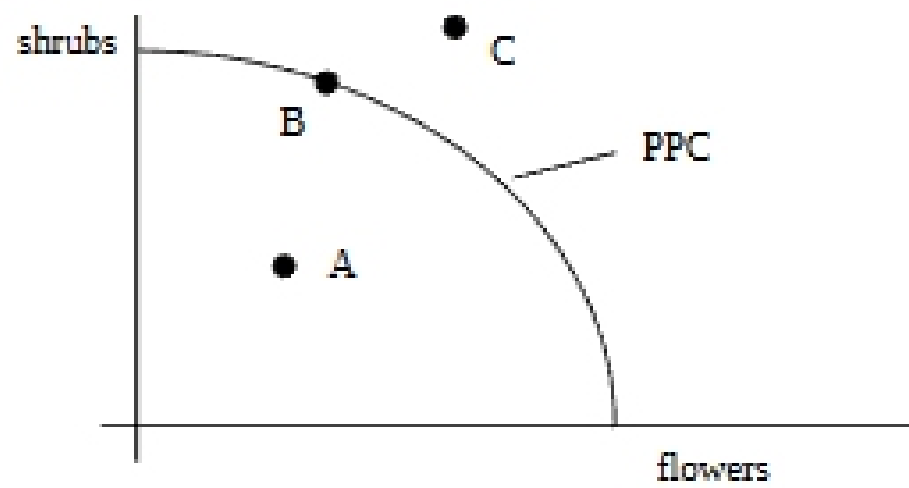


**True/False are valued at one point each**

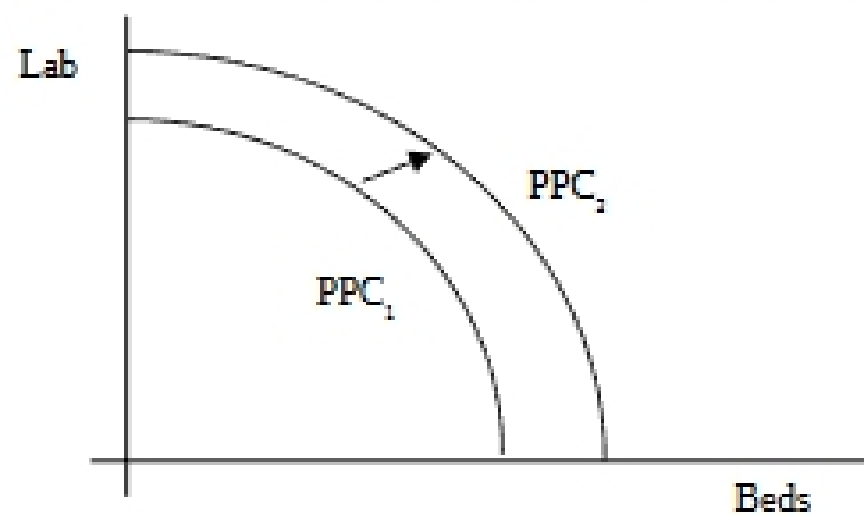
- T** 1. The ceteris paribus assumption helps a person to focus on specific variables and relationships among variables.
- F** 2. Production possibility curves are typically straight lines unless diminishing returns do not affect the trade off in producing goods.
- T** 3. Scarcity of resources forces us to face opportunity costs whenever we allocate resources like our time or income.
- T** 4. Once you pay for an all you can eat buffet, the out of pocket cost for another helping is zero but an opportunity cost still exists.
- T** 5. We make decisions on the margin. Using averages can mislead us in decision making.

**The following questions are five points each**

- 6. The supply of a good made available by a producer depends on the producer's opportunity cost.
- 7. The U.S. and other high income countries have economies based on free markets. This allows individuals with lower opportunity costs to specialize and then trade to make themselves better off.
- 8. If an individual or business has a lower opportunity cost than another in a particular type of production, they have a comparative advantage.
- 9. Using a production possibilities curve for a nursery that produces two general types of plants, shrubs and flowers, show **a)** potential level of output if the nursery does not use all of its land **b)** if the nursery is using all of its available resources efficiently and **c)** the potential level of output if the nursery would acquire more land.



10. Using production possibilities curves, show the impact of new technology on the potential output of a hospital. Assume the hospital produces two products; health care for patients occupying beds and laboratory work. Also assume the technology has the same impact on the output of both products.



The following question is worth ten points

11. Derive a supply curve for lumber from a production possibilities curve for a sawmill that produces lumber and plywood. What does the price ( $\$/q$ ) on the vertical axis of the supply curve represent? **Opportunity cost of seller or Price willing to sell the various q.**

