

Practice Problems for Midterm

October 4, 2012

1. (a) Assuming the following Production Possibilities Table, what is the opportunity cost of producing one more unit of Guns if we are currently producing 2 units of Guns and 9 units of Butter?

Table 1: Production Possibilities Table

Guns	Butter
0	12
1	11
2	9
3	7
4	4
5	0

(b) What is the opportunity cost of producing one more unit of Butter if we are currently producing 3 units of Guns and 6 units of Butter?

(c) In part (b) what region(s) of the PPF graph is the original point (3, 6)?

2. (a) The demand curve for kegs of Natural Light beer is $k = 1000 - 2p$. The supply curve for kegs of Natural Light beer is $k = -200 + 10p$. Suppose the benevolent ABC dictator sets a price ceiling of \$75 for Natural Light kegs (it is illegal to sell Kegs of Natty for more than \$75). What is the price in the Natty keg market under the price ceiling? The quantity supplied? The quantity demanded? and the quantity sold? (b) What if the price ceiling is \$125? (Graphs may be helpful, but this problem involves doing algebra)

(c) Is the market in part (a) in surplus or shortage? What about the market in part (b)?

3. Given the following table of Nominal GDP and price levels calculate real GDP growth between between the two years.

Table 2: GDP

Year	Nominal GDP	Price Index
2010	14735	111
2011	15321	114

4. The economy of the Shire in Middle Earth is poulated with 1200 Hobbits. 5% of the poulation are unemployed and 57.5% of the population is employed. What is the unemployment rate and the labor force participation rate in the Shire?

5. In the Solow Models, what two key properties does the aggregate production function exhibit?

6. In Modern Growth theory what are the three sources of economic growth?

7. Use the AS/AD model to show the impact of a hurricane that ravages the golf coast. Be sure to indicate which curve(s) shift and in what direction(s), and indicate both short run and long run changes in price level, real GDP, and unemployment. Compare **all changes** to the initial equilibrium.

8. When conducting fiscal policy, what are the two things that the government can use to influence aggregate demand?