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Econ221, Micro Principles - Mankiw

Thinking Like an Economist I

In this problem set, you will learn about economic models, the division between microeconomics and macroeconomics, and the way economists advise policy makers.

Professor Description: Covers economic models such as the circular-flow diagram, production possibilities frontiers, (increasing) opportunity costs, division between microeconomics and macroeconomics, normative and positive statements. Customized for Mankiw, 4th Edition.

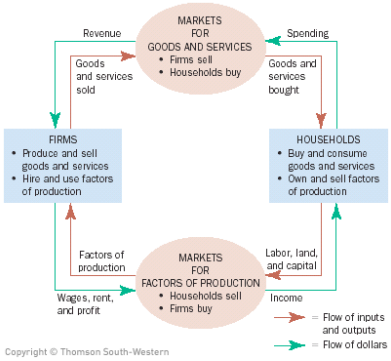
Question 1

1. True or False: Economists design economic models to simplify reality, so economic models do not include every feature of the economy.

- True
- False

Scenario

The diagram below is a circular-flow diagram representing the organization of the economy. The outer set of arrows shows the flow of dollars, and the inner set of arrows shows the corresponding flow of inputs and outputs. Use this diagram to answer the following questions on the circular-flow model.



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Question 2.1

2.1. Firms earn revenue when:

- **A.** Households purchase factors of production from firms
- **B.** Households purchase goods and services from firms
- **C.** Firms sell land to households

Question 2.2

2.2. Suppose that Winona earns $750 per week working as an accountant for an accounting firm. Winona's labor is an input that flows from:

- **A.** Firms to households through the markets for goods and services
- **B.** Households to firms through the markets for goods and services
- **C.** Firms to households through the markets for factors of production
- **D.** Households to firms through the markets for factors of production

Question 2.3

2.3. Suppose that Winona earns $750 per week working as an accountant for an accounting firm. The $750 flows from:

- **A.** Households to firms through the markets for factors of production
- **B.** Firms to households through the markets for factors of production
- **C.** Households to firms through the markets for goods and services
- **D.** Firms to households through the markets for goods and services

Scenario

The graph below shows the production possibilities frontier (PPF) for an economy that produces airplanes and cars.

Question 3.1

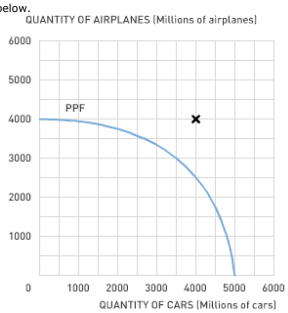
3.1. The black points (X symbols) represent production levels of airplanes and cars. Place an orange point (square symbol) on each black point that represents an efficient level of production. (Hint: You might not need to use all the orange points available.)

Tool tip: For information on using the graph tool, click the Help button.

Questions Tool 1.23 Copyright © 2002-2006 Aplia Inc. All rights reserved.

Question 3.2

3.2. Consider the graph below.

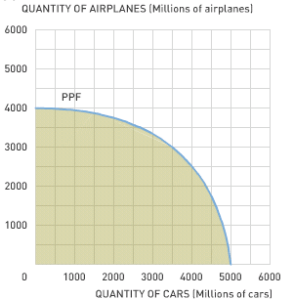


The black point (X symbol) in the graph above represents an:

- **A.** Efficient level of production
- **B.** Inefficient level of production
- **C.** Impossible level of production

Question 3.3

3.3. Consider the graph below.



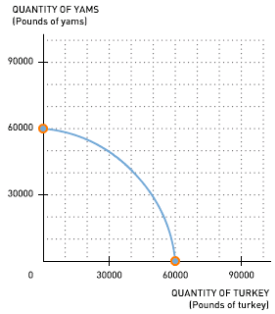
The shaded area under the PPF represents output levels that are:

- **A.** Efficient
- **B.** Inefficient
- **C.** Impossible to produce

Question 4

4. Supose an economy produces turkey and yams. If this economy uses all its resources to produce turkey, it can produce 60,000 pounds of turkey; if it uses all its resources to produce yams, it can produce 90,000 pounds of yams.

Consider the following graph.



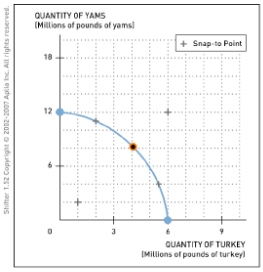
True or False: The curve in the graph above represents this economy's production possibilities frontier (PPF).

- True
- False

Question 5

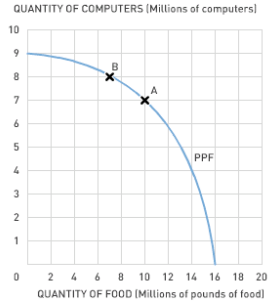
5. Consider an economy that produces turkey and yams. The graph below shows the production possibilities frontier (PPF) for this economy. Currently, the economy is producing 4 million pounds of turkey and 8 million pounds of yams, as represented by the point outlined in red. Suppose the economy reallocates some of its factors of production from production of yams to production of turkey. Move the point outlined in red to show the economy's new production point.

Tool tip: Drag the dot outlined in red near one of the positions marked by a plus sign. When you release, the dot will snap to the nearest position. When you are satisfied with your answer, click the Submit Answer button.



Scenario

The graph below shows the production possibilities frontier (PPF) of an economy that produces food and computers. The black points (X symbols) represent possible production levels.



Question 6.1

6.1. Suppose this economy is currently producing 10 million pounds of food and 7 million computers (point A). In this case, the opportunity cost of producing 1 million additional computers (that is, shifting production to point B) is:

- **A.** 1 million pounds of food

- **B.** 2 million pounds of food
- **C.** 3 million pounds of food
- **D.** 5 million pounds of food

Question 6.2

6.2. As the quantity of computers produced increases, the opportunity cost of producing additional computers:

- **A.** Increases
- **B.** Decreases
- **C.** Remains constant

Question 7

7. The graph below shows the production possibilities frontier (PPF) of an economy that produces wheat and clothing. Suppose a new type of pest, which is immune to existing pesticides, attacks the wheat crop. As a result, at a given quantity of clothing, the economy is able to produce less wheat than before the attack of the new pests. Adjust the PPF curve to show the economy's new production possibilities after the attack of the new pests.

Tool tip: Position your cursor over any dots outlined in red and drag to the desired position. Dots will snap to their new position. When you are satisfied with your answer, click the Submit Answer button.

Scenario

Determine whether the following topics should be categorized as microeconomics or macroeconomics.

Question 8.1

8.1. A firm's decision about what the size of its new factory should be is studied by:

- **A.** Macroeconomists
- **B.** Microeconomists

Question 8.2

8.2. The effect of a cigarette tax on the quantity of cigarettes sold is studied by:

- **A.** Macroeconomists
- **B.** Microeconomists

Question 8.3

8.3. The effects of the government's tax policy on long-term economic growth would be studied by:

- **A.** Macroeconomists
- **B.** Microeconomists

Question 9

9. Which of the following is a positive (rather than a normative) statement?

- **A.** The government should increase the number of welfare programs to lessen the number of families living in poverty.
- **B.** The tallest player on a basketball team should play every minute of the game, since he or she can get the most blocks and rebounds.
- **C.** On average, people with more years of education have a higher income.
- **D.** Every student should take courses in economics. Students should know the concepts of marginal analysis, opportunity costs, and tradeoffs in order to make good decisions and understand society.

Due Date: 09.09.07, 11:45 PM 16/Practice Visible to Students

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