

Name: _____
ECON 201—Montgomery College
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EXAM 2

- There are 110 possible points on this exam. The test is out of 100.
- You have one class session to complete this exam, but you should be able to complete it in less than that.
- Please turn off all cell phones and other electronic equipment.
- You are allowed a calculator for the exam. This calculator cannot be capable of storing equations. This calculator cannot double as a cell phone.
- Be sure to read all instructions and questions carefully.
- Remember to show all your work.
- Try all questions! You get zero points for questions that are not attempted.
- *Please print clearly and neatly.*

Part I: Matching. Write the letter from the column on the right which best matches each word or phrase in the column on the left. You will not use all the options on the right and you cannot use the same option more than once.

2 points each.

- | | |
|-----------------------------------|---|
| 1. ___ Absolute advantage | A. An increase in how much one gets while decreasing the amount others get. |
| 2. ___ Balance of payments | B. An increase in how much one gets without any change to what others get. |
| 3. ___ Compensating differentials | C. Determined by who produces the most |
| 4. ___ Lorenz curve | D. Determined by who sacrifices the least |
| 5. ___ Positive sum game | E. Explains why fun jobs should have a lower salary. |
| 6. ___ Purchasing power parity | F. Explains why the trade deficit is only half of what's going on. |
| 7. ___ Rent | G. Like inflation but for across space rather than time. |
| | H. Represents the actual distribution of income or wealth. |
| | I. Exports minus imports |

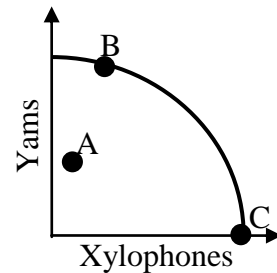
Part II: Multiple Choice. Choose the best answer to the following.

4 points each.

8. We've discussed that income equality had a greater justification than simply good feelings. What is the economic argument in favor for reallocation, *ceteris paribus*?
- It increases productivity
 - It increases total utility
 - It decreases waste
 - A & C
 - None of the above
9. In theory, poor countries should catch up with wealthy countries. Why?
- Because poor countries have relatively little capital
 - Because poor countries will trade more with wealthy countries
 - Because wealthy countries tend to have stable governments
 - A & C
 - None of the above
10. If the Gini Ratio for a country is high, that means:
- That country's average income is low compared to other countries.
 - That country has a lot of income inequality compared to other countries.
 - That country has a lot of income equality compared to other countries.
 - A & B
 - None of the above

11. Suppose you're a bank in England, where the pound is the local currency. If you do *not* intend on purchasing any U.S. goods or services, why would you allow people to give you U.S. dollars in exchange for British pounds?
- You might be interested in investing in European companies.
 - You might be interested in purchasing stock in a U.S. company.
 - You might be interested in buying U.S. government bonds.
 - B & C
 - None of the above

12. Consider the production possibilities frontier below. Which points indicate productive efficiency?



- A
- B
- C
- B & C
- None of the above

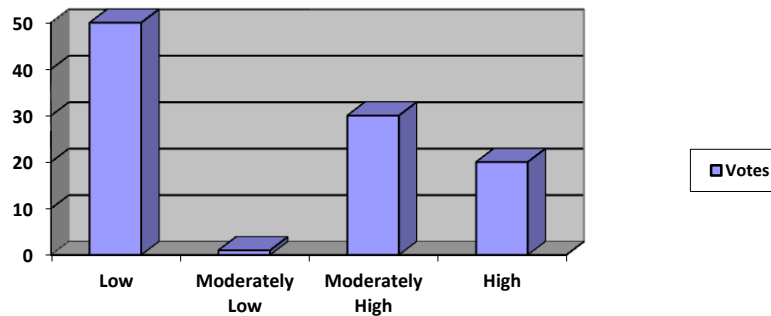
13. True or false: it is possible to have allocative efficiency without productive efficiency.

- True, because sometimes people don't want as much as could be produced.
- True, because that bundle may represent a maximum level of production but it doesn't mean people want that bundle.
- False, because it would be possible to get more of something without sacrificing anything.
- False, because you could always produce more if you sacrifice something else.
- None of the above

14. Which of the following is an example of the Fundamental Theorem of Exchange in action?

- Jill buys her favorite snack—roasted snake with sardines—which allows the store owner to stay open.
- Greg and Mary, a married couple, go out to eat together.
- Homer getting a mystery box (contents unknown) as payment for work.
- A & B
- None of the above

15. Consider the following distribution of 101 voters on how much the country should spend on the army (there are 50 voters for Low, one voter for Moderately Low, etc.). Assume all voters vote.



- If Candidate Nixon is for Moderately High spending and Candidate Kennedy is for Moderately Low spending, how many votes does each candidate get?
- Nixon—50...Kennedy—1
 - Nixon—30...Kennedy—1
 - Nixon—30...Kennedy—51
 - Nixon—50...Kennedy—51
 - None of the above
16. We discussed many reasons for why economic growth occurs. Which of the following was one of the reasons?
- Availability of education
 - Rule of law
 - Lots of capital and equipment
 - B & C
 - None of the above
17. Which of the following is an example of rent (in the public choice sense)?
- Using the threat of violence to take someone's money.
 - Selling steel at an inflated price; people buy it only because there are high tariffs on steel.
 - Charging someone to borrow one of your cars.
 - A & B
 - All of the above
18. If income inequality increases, what must that mean?
- The rich are getting richer and the poorer are getting poorer.
 - The rich are getting less rich and the poor are just as poor as they were before.
 - The rich are getting richer and the poor are getting richer.
 - The rich are as rich as they were before, and the poor are getting poorer.
 - None of the above

19. Which of the following is an example of rational irrationality?
- a. A lawyer not knowing the name of every U.S. state and its capital.
 - b. A construction worker avoiding black cats because they are bad luck.
 - c. A firefighter who refuses to be near anything red, a color he's afraid of.
 - d. B & C
 - e. None of the above

Part III: Short Answer. *Answer the following.*

16 points each.

20. Do you support more or less income inequality? Briefly explain your reasoning using at least two justifications for why incomes differ (you can argue that they are not that important or really important explanations for why incomes differ, but you must explain why each should matter in this discussion). You will be graded on your reasoning, not your position.

Position: _____

- 1) _____

- 2) _____

Don't forget the last question on the back!

21. Four friends are working on an outdoor project. They are focusing on two tasks: carrying wood and cutting wood. The accompanying table indicates how many pounds of wood they can carry or number of accurate cuts they can make over the course of an hour.

Friend	Pounds of Wood Carried	Number of Accurate Cuts Made
Sheldon	20	10
Ursula	50	20
Amber	80	60
Tommy	70	50

Determine who has the comparative advantage in carrying wood and who has the comparative advantage in cutting wood.

22. Use the information from the previous question to construct a production possibilities frontier. Use the diagram provided, making sure to label each part of your production possibilities frontier. Be sure it's to scale!

