1. Sally has a farm where she grows pumpkins and corn. The graph below shows the combinations of pumpkins and corn she is able to grow.

(a) i. Give an example of a combination of pumpkins and corn that would be efficient for Sally to produce.

   ii. Give an example of a combination of pumpkins and corn that would be attainable but inefficient for Sally to produce.

   iii. Give an example of a combination of pumpkins and corn that would be unattainable for Sally to produce.

(b) i. If Sally is currently producing 100 corn and she decides she wants to produce 200 corn instead, what is her opportunity cost for each corn when she increases from 100 to 200 corn?

   ii. If Sally is currently producing 700 corn and she decides she wants to produce 800 corn instead, what is her opportunity cost for each corn when she increases from 700 to 800 corn?
c. Does Sally have increasing opportunity costs? Explain what increasing opportunity costs are and how you know either she does or does not have them.

d. In general, what has to be true about resources in order to have increasing opportunity costs? Give an example of two products that would have a production possibilities frontier with increasing opportunity costs. (Do not use the example given in class. Rather, make up an example of your own.)

e. Give two examples of things that would shift Sally’s production possibilities frontier out (to the right). Make the examples specific to the growing of pumpkins and corn.

2. You and your roommate are sitting around talking politics one day and the issue of international trade comes up. Your roommate says, “I am sick of seeing jobs go to other countries when the U.S. is better at producing goods. If I were President I would put big restrictions on trade and make American’s buy things built in America. There would be more jobs and everyone would be better off.” What would your reply be? (Remember to incorporate material from class in your answer.)
3. The graphs below show the production possibilities frontiers for Japan and Korea. Use these graphs to answer the following questions.

a. Does Japan have increasing opportunity costs? How do you know?

b. What is absolute advantage, and which country has the absolute advantage in the production of cars? of computers?

c. What is comparative advantage, and which country has the comparative advantage in the production of cars? of computers?

d. Which of the two countries (or both) can gain from trading with each other? If so, which country produces cars and which country produces computers?

e. What are the bounds for the possible terms of the trade? In other words, what is the most computers that would be an acceptable trade for one more car? What is the least computers that would be an acceptable trade for one more car?

f. Give an example of a possible trade that would make both countries better off?
g. Japan can make more cares and more computers than Korea. Given this, the residents of Japan are skeptical as to why they should trade with Korea at all. They are thinking that they would be better off just producing their own cars and computers. Set the residents straight and let them know why they can gain from trade.

h. Provide at least two arguments for why the residents of Japan may prefer to limit the amount of trade they do with Korea (or not trade with them at all).

4. What would be the effect of the following on the demand curve, the supply curve, equilibrium price, and equilibrium quantity of gasoline sold in Kent? [note: you don’t need any numbers – just describe why the curve would shift (or why it would not shift), how the curve would shift (in or out), and what would happen to equilibrium price and quantity (price go up or down; quantity go up or down)].

a. Hurricane Katrina wipes out gasoline refineries on the gulf coast.

b. There is an increase in the number of S.U.V.’s being driven in Kent.

c. The price of Hybrid Cars (that run on electricity as well as gas) falls.

d. The U.S. begins drilling for oil in the Alaska Wildlife Refuge (it is believed that there is a lot of oil there but thus far the U.S. has not drilled there because of environmental concerns).