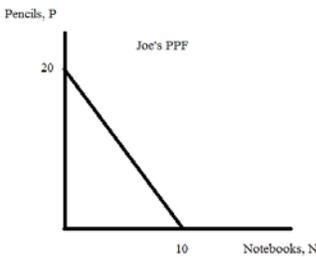


Economics 102  
Summer 2017  
Quiz #1 with Answers

1. Joe and Maria both produce pencils (P) and notebooks (N). They each have linear production possibility frontiers. You are told the following information about their production of these two goods. Joe can produce a maximum of 20 pencils or 10 notebooks. Maria can produce 15 pencils and 5 notebooks or 10 pencils and 10 notebooks.

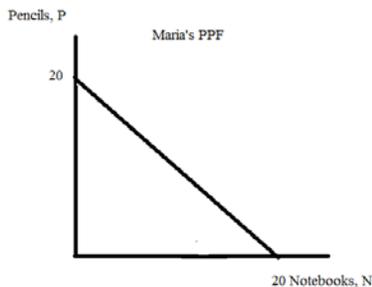
a. (1 point) In the space below draw a graph representing Joe's production possibility frontier measuring Pencils on the vertical axis and Notebooks on the horizontal axis. Identify the numeric value of the intercepts of this PPF. Incompletely labeled graphs will not receive full credit.

Answer:



b. (1 point) In the space below draw a graph representing Maria's production possibility frontier measuring Pencils on the vertical axis and Notebooks on the horizontal axis. Identify the numeric value of the intercepts of this PPF. Incompletely labeled graphs will not receive full credit.

Answer:



The PPF depicts the maximum production capacity for the individual.

c. (1 point) Write an equation in slope-intercept form for Joe's PPF with Pencils the variable measured on the vertical axis. Write an equation in slope-intercept form for Maria's PPF with Pencils the variable measured on the vertical axis.

Equation for Joe's PPF: \_\_\_\_\_

Equations for Maria's PPF \_\_\_\_\_

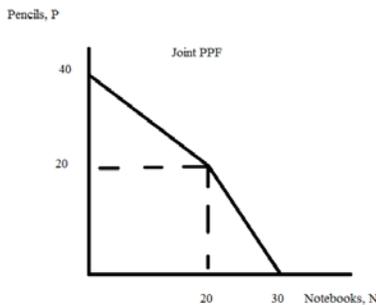
Answer:

Equation for Joe's PPF:  $P = 20 - 2N$

Equations for Maria's PPF  $P = 20 - N$

d. (2 points) In the space below draw a graph of the joint PPF for Joe and Maria measuring Pencils on the vertical axis and Notebooks on the horizontal axis. Identify any intercepts as well as coordinates for any kink points. Then write an equation or equations for the joint PPF being sure to identify where necessary any ranges.

Answer:



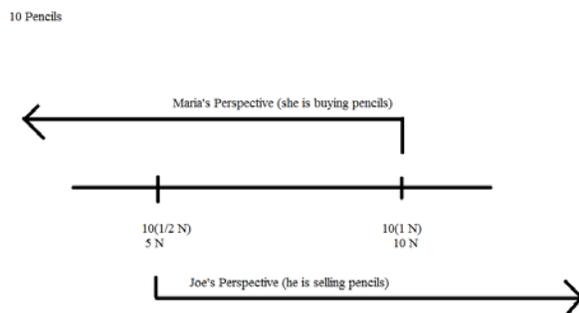
$P = 40 - N$  for  $20 \leq P \leq 40$  Only Maria is producing notebooks since she has the comparative advantage in producing notebooks.

$P = 60 - 2N$  for  $0 \leq P \leq 20$  Both Joe and Maria are producing notebooks.

e. (1 point) What is the range of trading prices in terms of notebooks that is acceptable for 10 pencils? Use the number line approach from the lecture to represent this trading range and make sure your answer indicates Joe's perspective as well as Maria's perspective clearly.

Answer:

Trade takes place when the price is above the production cost to the seller but below the production cost to the buyer.



2. (2 points) Lindsay is a candy maker. Lindsay can produce 5 dark chocolate truffles in one day if she receives 3 dollars. It is also known that, for each extra dollar received, Lindsay produces a third of a dark chocolate truffle. Write an equation that describes Lindsay's offer of dark chocolate truffles (T) in terms of dollars (D). View T as the variable measured on the vertical axis. Show your work.

Answer:

You are told that Lindsay can produce the point  $(D, T) = (3, 5)$  in the provided information. You are also told that  $(\text{change in dollars}/\text{change in truffles}) = 1/3$ . So, if you think of D as being measured on the horizontal axis and T as being measured on the vertical axis then you have:

$$y = mx + b$$

$$T = (1/3)D + b$$

Substituting in your known point you get:

$$5 = (1/3)(3) + b$$

$$b = 4$$

$$\text{Equation: } T = (1/3)D + 4$$

3. (2 points) Which of the following statements is true?

a. If we shift the line  $y = 3x - 10$ , two units to the right we get the line  $y = 3x - 8$ .

b. If we shift the line  $y = 3x - 10$ , two units to the right we get the line  $y = 3x - 12$  and the equation in x-intercept form is  $x = 4 + y/3$ .

c. Suppose that the supply curve is initially given as  $Q = (1/3)P - (10/3)$ . If the costs of producing the good increases by \$4 per unit then the new supply curve is  $Q = (1/3)P - (14/3)$ .

d. Suppose the line  $y = 3x - 1$  shifts 2 units to the left. This new line intersects the line  $y = 2/3 - x/5$  when  $y = 10/3$ .

Answer:

(c) is the correct answer.

For (a): If we shift this line two units to the right we get  $y = 3x - 16$ .

For (b): If we shift this line two units to the right we get  $y = 3x - 16$  and the x-intercept form of this equation is  $x = (1/3)y + 16/3$ .

For (d): If we shift this line two units to the left we get  $y = 3x + 5$ . This line intersects  $y = 2/3 - (1/5)x$  at  $(x, y) = (-65/48, 15/16)$ .

For (c): The new supply curve is shifting vertically up by \$4 per unit. The initial supply curve can be written as  $P = 3Q + 10$  in y-intercept form. If the new supply curve shifts in a parallel manner then the initial and new supply curves have the same slope and just different y-intercepts. The new y-intercept for the second line is 4 units greater than the initial line's y-intercept. Thus, the new line is  $P = 3Q + 14$  and rewriting this in x-intercept form we get  $Q = (1/3)P - (14/3)$ .