Economics Midterm – Short Answer by C. Kohn, Waterford WI

Partner Names: Hour Date: Score:

Directions: Complete this exam in groups of two (you may also work alone if you choose to). If you work in partners, each person is responsible for writing half the answers and should initial after each answer they write.

1. Firefighters, police officers, and teachers are vital to the function of society and yet are paid comparatively little money. Pro-athletes provide almost no measurable benefit to society and yet are among the best paid people in society.   
     
   Explain why this is the case. Be sure to include the following terms: *intrinsic value; economic value; scarcity; competition.*

1. Your friend remarks that money is a stupid concept because a dollar bill (or a $20 bill, or even a $100 bill) are essentially worthless pieces of paper. Your friend remarks it would make much more sense to exchange goods that actually have value rather than to exchange pieces of paper that only have an imaginary value. Is this true? Explain:

1. Why are property rights so necessary for an economy to function?

How do patents relate to property rights and are patents a good idea for society?

1. You decide to take chance and start a modeling career in New York City. When you move to the Big Apple, you can’t find an apartment for less than $1000 per month.   
     
   How was this price determined? Explain using the law of supply and the law of demand as well as the concept of an equilibrium price:

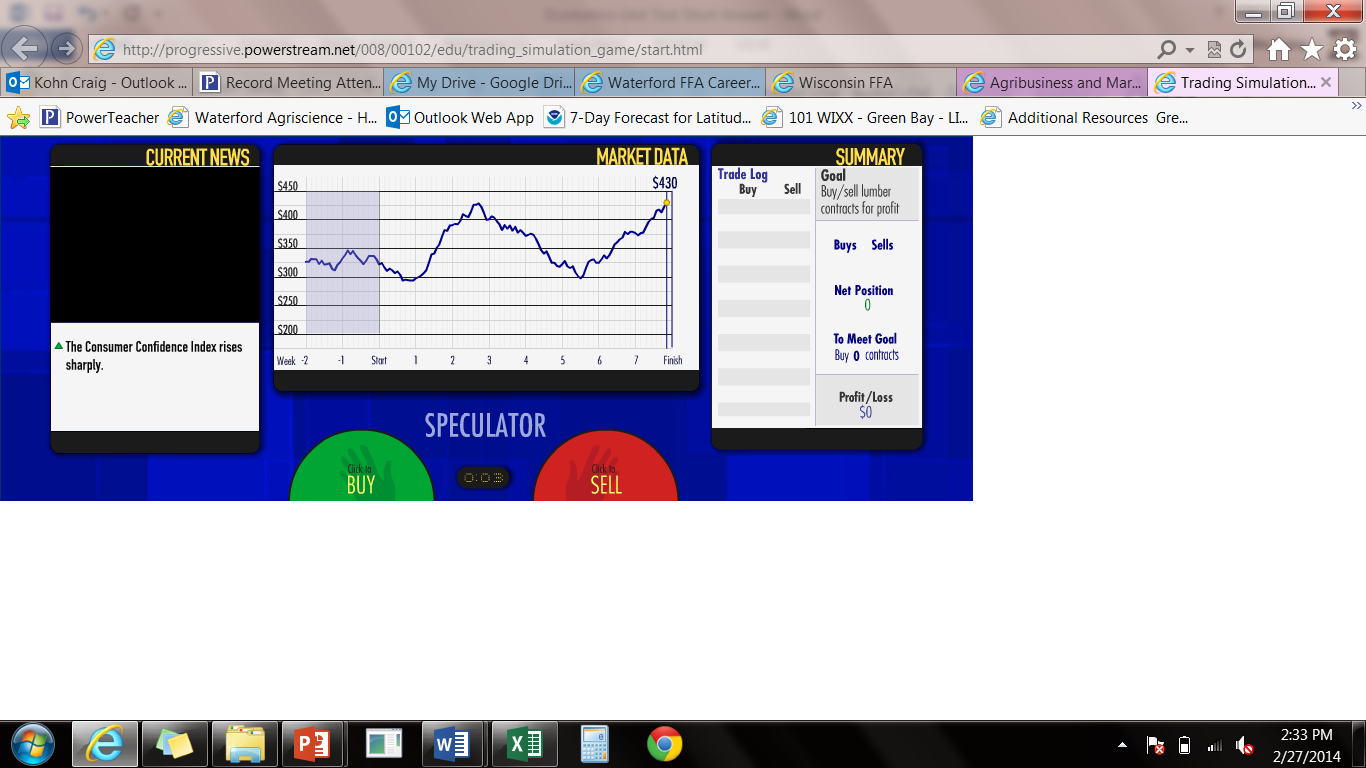
Why is New York City’s rent so much higher than anywhere else? Explain using the concepts of scarcity and competition:

Your local elected officials are considering legislation to keep rent under $800 (which they consider to be a reasonable maximum for rent given the national average). Is this a good idea? Explain using the term *price ceiling*.

1. Lately services such as Netflix and iPad app’s have popped up everywhere, providing large amounts of valuable goods for an incredibly cheap price. While a new movie used to cost $20-30 to purchase on VHS, you can now get hundreds of movies and shows streamed through Netflix for less than $20/month total.   
     
   On the left, explain how this is possible; use the following terms: *supply shifter; technology; new equilibrium price; substitute good.*    
     
   On the right, draw the supply and demand curves that demonstrate this phenomena. Label each of the following: demand curve; supply curve 1; supply curve 2; equilibrium price; new equilibrium price; price axis; quantity axis.

1. What is the difference between moving along a supply or demand curve and shifting the supply or demand curve? Explain using examples.

1. You are on the President’ economic advisory council. The economy is crashing and you’ve been asked to suggest three options for preventing an economic disaster. How will you prevent the next Great Depression? Explain below:



1. Use the graph above. Assuming this person began at the start point and ended at the finish point, would it have been better to go long or to go short?   
     
   \_ Explain:   
     
   What happened to the supply of this commodity between the start and week 3?   
     
   Explain why this makes sense:   
     
   What happened to the supply of this commodity between the week 3 week 5?   
     
   Explain why this makes sense:
2. You have been appointed to serve as chairman of the Federal Reserve. The US is facing rampant inflation.   
     
   If inflation is bad, what does this mean?   
     
   Why is this happening?   
     
   What can you do as the Fed chairman to fix this?