

1. Ceteris paribus means \_\_\_\_\_.
2. The Wealth of Nations was written in 1776 by \_\_\_\_\_.
3. The population of the U.S. is about \_\_\_\_\_.

Answer four (4) of the following six (6) questions:

1. Given the table below answer the following questions:
  - a. What is the equilibrium price? What is the equilibrium quantity? Fill in the surplus-shortage column and use it to explain why your answers are correct.
  - b. Graph the demand for wheat and the supply of wheat. Be sure to label the axes of your graph correctly. Label equilibrium price  $P$  and equilibrium price  $Q$ .
  - c. Why will \$3.40 not be the equilibrium price in this market? Why not \$4.90? "Surpluses drive prices up; shortages drive them down." Do you agree?

| Thousands<br>of Bushels<br>Demanded | Price per<br>Bushel | Thousands<br>of Bushels<br>Supplied | Surplus (+)<br>or<br>Shortage (-) |
|-------------------------------------|---------------------|-------------------------------------|-----------------------------------|
| 85                                  | \$3.40              | 72                                  | _____                             |
| 80                                  | 3.70                | 73                                  | _____                             |
| 75                                  | 4.00                | 75                                  | _____                             |
| 70                                  | 4.30                | 77                                  | _____                             |
| 65                                  | 4.60                | 79                                  | _____                             |
| 60                                  | 4.90                | 81                                  | _____                             |

2. What are positive externalities and how can they be corrected? What are negative externalities and how can they be corrected? How is the concept of market failure illustrated?
3. How and why does the government try to restrict/encourage trade? What is the theory of comparative advantage? What are the conclusions/implications of this theory?
4. GDP is a valid measure of output but has many limitations as do price indices. What are these limitations and their causes?
5. Why is it hard to define and measure full employment? Why is some unemployment good but some bad?
6. Illustrate and explain what is meant by a recessionary gap and an expansionary gap. How is the multiplier reflected in your graph? What influences the size of the multiplier? What is the multiplier effect and what does it do?