

EC101 DD/EE. Problem Set 1

*Multiple Choice questions have only one correct answer. Other kinds of questions may have more than one correct answer. You should understand **why** your answers are correct. If you don't understand the meaning of a question, you may write to your own TF, but do not expect him/her to give you answers. The problem set will not be graded, but the way you discuss the problems in your discussion section will affect your discussion-section score.*

1. Minnie has one cinema ticket, which allows her to watch any movie that is showing at the theatre. She has else nothing to do, so she goes to the cinema. The following movies are showing, in Minnie's order of preference. What is Minnie's opportunity cost of seeing Mean Girls? What is Minnie's opportunity cost of seeing the James Bond movie? Hint: The opportunity cost of watching a movie is what Minnie would have done if she didn't watch it.

- (a) Mean Girls
- (b) The Notebook
- (c) James Bond: Goldfinger
- (d) Fun with Guns

2. Give three examples of incentives your parents could give you in order to clean your room.

3. The king of Corsica is considering going to war against the evil Sardinia. What is the opportunity cost of war for the kingdom of Corsica?

- (a) The production of wheat lost when farmers become soldiers
- (b) Corsica's payments to its soldiers
- (c) Sardinia's payments to its soldiers
- (d) **NONE** of the above

4. Suppose you buy a textbook for a BU course. The opportunity cost of the textbook is

- (a) whatever you would have spent the money on if you had not bought the book.
- (b) the cost of producing the book.
- (c) the time you spend studying the book.

5. Which of the following statements is true?

- (a) Microeconomics is concerned chiefly with the economy as a whole.
- (b) Macroeconomics is concerned chiefly with individual markets.
- (c) Governments have no influence over market prices.
- (d) When economists study the price in a market, their chief aim is to understand why the price is what it is and why it may change.

6. The rates of violent crime and murder have been known to jump when ice-cream sales do.

Answer the following questions:

- Does this suggest that consuming ice cream causes violent crime? Explain.
- Does it suggest violent crime make people consume more ice cream? Explain.
- Explain why you think this may occur.

7. Answer the following questions:

- List four opportunity costs an undergraduate student may incur in order to obtain a 4.0 GPA.
- Do you think two different students will incur the same opportunity costs? Explain why or why not.

8. What's the difference between wealth and income?
9. BU has wealth. For each of the following components of BU capital, write P if the item is physical capital, H if the item is human capital, and S if the item is social capital.
- The professors at BU have expertise in many fields
 - Aganis Arena
 - Many professors at BU have relationships with faculty at other universities like Harvard and MIT
10. Suppose a country had a fire in one of the vaults in their main bank. Unfortunately, 10,000 one-hundred dollar bills have been lost to the fire. What can we say about the wealth of the country?
- (a) The country is \$10,000 poorer
 - (b) The country is \$1,000,000 poorer
 - (c) The country is poorer by the cost of printing a thousand new bills.
 - (d) **NONE** of the above
11. Discuss the advantages and disadvantages of requiring people to pay in order to hike in the national park in the state.
12. Suppose your boyfriend/girlfriend offers to treat you to a delicious sushi dinner next Saturday. Discuss whether this dinner is free, or whether there are costs attached to it.
13. Economics is mainly:
- (a) the study of the markets for stocks and bonds
 - (b) the study of business firms
 - (c) a type of psychology
 - (d) **NONE** of the above
14. Sam could either go home for Spring break or go to Mexico. The trip home costs \$100, the trip to Mexico costs \$1200. What is the opportunity cost of going to Mexico?
15. *When 200 economics professors were asked the following question about opportunity cost, 78% of the economists gave the wrong answer! Can you do better?* You won a free ticket to see a One Direction concert (which has no resale value). Taylor Swift is performing on the same night and is your next-best alternative activity. Tickets to see Taylor Swift cost \$40. You would be willing to pay up to \$50 to see Taylor Swift. Based on this information, what is the opportunity cost of seeing One Direction?
- (a) 0
 - (b) \$10
 - (c) \$40
 - (d) \$50
16. On years that it rains, all else equal, rice farmers have better rice yields. What would you conclude?
17. Ben and Jane often lend each other money, knowing that the other person will repay the loan. Which kind of capital is this an example of?