Introduction, What is Economics?

Multiple Choice (MC) questions usually have only one correct answer, although you may be able to defend different answers. Other kinds of questions often have more than one correct answer. Having good reasons for your answers is more important than what your answer is. 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 participation score. You are allowed to work on the problem sets with other students.

1. Minnie has one cinema ticket, which allows her to watch any movie that is showing. She has nothing else to do, so she goes. The available movies (from Minnie’s most preferred to least preferred) are Mean Girls, The Notebook, James Bond: Goldfinger, Fun with Guns.
   i. What is Minnie’s opportunity cost of seeing Mean Girls?
   ii. What is Minnie’s opportunity cost of seeing the James Bond movie?

2. Give three examples of incentives your parents could give you to push you 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. Corsica’s payments to its soldiers
   b. Sardinia’s payments to its soldiers
   c. The production of wheat lost when farmers become soldiers
   d. NONE of the above

4. Suppose you buy a textbook for a BU course. Your opportunity cost of the textbook is
   a. the cost of producing the book.
   b. whatever you would have spent the money on if you had not bought the book.
   c. the time you spend studying the book.

5. The rates of violent crime and murder have been known to jump when ice-cream sales do.
   i. Does this suggest that consuming ice cream causes violent crime? Explain.
   ii. Does this suggest violent crime makes people consume more ice cream? Explain.
   iii. Explain why you think this may occur.

6. On years that it rains rice farmers have better rice yields. What would you conclude?

7. Answer the following questions:
   i. List four opportunity costs an undergraduate student may incur in order to obtain a 4.0 GPA.
   ii. 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’s capital goods, write P if the item is physical capital, H if the item is human capital, and S if the item is social capital.
   i. BU professors are experts in many fields
   ii. Agganis Arena
   iii. BU professors have relationships with faculty at other universities like Harvard and MIT
   iv. Teaching fellows who know how to do economic research

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10. The United States had a fire in the Federal Reserve Bank, and 10,000 one-hundred dollar bills were 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 ten-thousand new bills.
   d. **NONE** of the above

11. Discuss the advantages and disadvantages of requiring people to pay for permission to hike in the national park.

12. Suppose your friend offers to treat you to a delicious sushi dinner next Saturday. Discuss whether this dinner is free, or whether costs are 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. Ben and Jane often lend each other money, knowing that the other person will repay the loan. Is this an example of some kind of capital? Explain

16. In a prison, prisoner Alice has apples and wants oranges. Her prison cellmate Betty has oranges. Alice decides to give Betty cigarettes in exchange for her oranges, because all prisoners will accept cigarettes in exchange for goods and services. Is this an example of barter or of buying and selling? How is the “money” used here different from paper money?

17. You have an old car that you wish to sell. A passerby on the street approaches you and offers to buy it in exchange for 1,000 NEO. He tells you NEO is a new type of cryptocurrency (virtual money, similar to Bitcoin) that he will transfer through your phone. NEO is not a physical object and has no other uses whatsoever.
   i. You have never heard of NEO and you know that very few people in the U.S. would accept it as payment. Would you accept or reject the buyer’s offer? **Explain why.**
   ii. The next morning, you see on the front-page article of The Economist (a high-quality economics magazine) that Amazon and other major retailers have started accepting NEO as a means of payment. Now would you call the buyer and accept his offer? **Explain why or why not?**