

1. Suppose the country of Happyland is a small country compared to the rest of the world and has the following production possibilities for toys and ice cream when using all resources efficiently:

Toys	0	5	10	15	20
Ice Cream	100	90	70	40	0

- (a) (4 points) Graph the production possibilities frontier.
- (b) (4 points) What is the marginal opportunity cost of producing the 10th toy?
- (c) (4 points) What is the marginal opportunity cost of producing the 20th scoop of ice cream?
- (d) (4 points) What happens to the opportunity cost of toys as Happyland decides to produce more toys?
- (e) (4 points) What happens to the opportunity cost of ice cream as Happyland decides to produce more ice cream?

2. Suppose an economy produces only clothing and food.
- (a) (5 points) Draw a production possibilities frontier with constant opportunity costs. What feature of the graph illustrates this?
- (b) (5 points) If an economy producing at an efficient point wants to increase its production of food, what must happen to its production of clothing? What feature of the graph illustrates this?
3. (10 points) The federal government currently provides low interest loans and other aid to automobile producers. Suppose the government eliminates these programs. What will happen to the price of automobiles and the quantities sold? Provide appropriate graphs to illustrate your answer.



