

1. Suppose the country of Musicland produces guitars (made of wood) and trumpets (made of brass). When using all its resources efficiently it can produce the following combinations:

Guitars	0	10	20	30	40
Trumpets	50	45	35	20	0

- (a) (5 points) Graph the production possibilities frontier. Label the portions of the figure that represent efficient levels of production, inefficient levels of production, and impossible levels of production.
- (b) (5 points) What is the marginal opportunity cost of producing the 35th Trumpet?
- (c) (5 points) Suppose an economy is not producing efficiently. Is it possible to increase production of guitars without decreasing production trumpets. Illustrate with the above production possibilities frontier.
- (d) (5 points) Suppose there is a forest fire, destroying trees used to produce wood. Illustrate the impact on the production possibilities frontier.



5. (10 points) Suppose people expect a decline in European stock markets. Describe and illustrate the impact this could have on the value of the U.S. dollar relative to the Euro.

6. (10 points) Suppose there is an increase in preference for American made final goods among European people. Describe and illustrate the impact on the value of the U.S. dollar relative to the Euro.

7. (10 points) Suppose there is a decrease in the average level of income in South Korea, and that the United States is a significant trading partner. Describe and illustrate the impact on the value of the U.S. dollar relative to the Korean Won.

8. Suppose an economy produces only veggie burgers and soy dogs, and the prices and quantities that prevailed for 2008 and 2009 were given by:

	<b>2008</b>	
	<b>Price</b>	<b>Quantity</b>
<b>Veggie Burgers</b>	\$2.50	100
<b>Soy Dogs</b>	\$3.00	120

  

	<b>2009</b>	
	<b>Price</b>	<b>Quantity</b>
<b>Veggie Burgers</b>	\$3.50	120
<b>Soy Dogs</b>	\$4.00	150

- (a) (10 points) Compute the growth rate of production using 2008 as a base year.
- (b) (10 points) What was the inflation rate from 2008 to 2009?
- (c) (10 points) Suppose you earned \$15 per hour in 2008 and you earned \$20 per hour in 2009. What was the growth rate of your nominal wage? Which year did your wages have greater purchasing power? Explain.