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.

2.	(5 points) Suppose consumers expect the price of gasoline to rise over the next several years. Describe and illustrate what impact this will this have on the price and quantity of sports utility vehicles (automobiles that consume a lot of gasoline).
	(5 points) Suppose people expect another economic recession which means people might lose their jobs or otherwise experience decreases in income. Describe and illustrate the impact on the price and quantity of new houses.
4.	(10 points) Suppose the price of gasoline increases and quantity of gasoline consumed in the United States increases. What might cause this to happen? Provide a real world example and illustrate the impact with appropriate graphs.

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
U.	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:

	2008	
	Price	Quantity
Veggie Burgers	\$2.50	100
Soy Dogs	\$3.00	120
	2	2009
	Price	2009 Quantity
Veggie Burgers		

(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.