

Name: _____

Economics 103 Midterm #1
Prof. Bryan Caplan
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Instructions:

- You have 75 minutes to complete this exam.
- You may use any books, notes, or other materials that you wish, but avoid spending too much time on any one question.
- Partial credit may be awarded on all questions.
- The maximum possible number of points is 100.
- You should have four pages, counting this one.

Part 1: True, False, and Explain**(10 points each - 3 for the right answer, and 7 for the explanation)**

State whether each of the following six propositions is true or false. In 2-3 sentences, explain why.

1. Crusoe is a sailor on a ship. The captain picks the *number* of chores he has to do, but Crusoe picks *which* chores he does. He ranks various chores in the following order of unpleasantness:

<u>Chore</u>	<u>Rank</u>
cleaning cannons	1 (most unpleasant)
swabbing deck	2
brewing rum	3
look-out	4 (least unpleasant)

T, F, and Explain: **The law of diminishing marginal utility says that if the captain tells Crusoe to do 3 chores, he will brew rum, swab the deck, and clean the cannons.**

2. "Anyone can capture fish in the ocean, but only on the run, only as hunters and gatherers. No one can *farm* the ocean, no one can engage in *aquaculture*... For example, if anyone tried to farm the sea and to increase the productivity of the fisheries by fertilizers, he would immediately be deprived of the fruits of his efforts because he could not keep other fishermen from rushing in and seizing the fish." (Murray Rothbard, *For a New Liberty*)

T, F, and Explain: **Rothbard is saying that ocean-fishing suffers from the tragedy of the commons.**

3. T, F, and Explain: **University textbooks are a good example of a good with almost perfectly inelastic supply.**

4. A restaurant's supply curve stays the same throughout the day, but the demand for its food differs for lunch and dinner:

Meal Price	Supply	Lunch Demand	Dinner Demand
\$16	220	5	30
\$14	210	25	60
\$10	200	80	120
\$8	190	150	250
\$6	180	250	400
\$4	170	400	600

T, F, and Explain: **The equilibrium price of lunch is somewhere between \$6 and \$8; the equilibrium price of dinner is somewhere between \$8 and \$10.**

5. At a time when the equilibrium price of gas is \$1.00/gallon, the government passes a law saying that it is only legal to sell gas for exactly \$1.00/gallon: no more, no less.

T, F, and Explain: **If demand increases, there will be a shortage of gas; if demand falls, the law will have no effect.**

6. T, F, and Explain: **Landsburg ("The Iowa Car Crop") would admit that protective tariffs against foreign products help people in the U.S. if other countries impose tariffs on U.S. products.**

Part 2: Short Answer
(20 points each)

In 4-6 sentences, answer both of the following questions.

1. What would happen to the market for low-wage labor if **both** the minimum wage and welfare were abolished? Neatly show both effects on one diagram. Then carefully explain the combined consequences of these policies on wages and employment.

2. Thomas Bailey (*The American Pageant*) writes that in the early 19th century:

Imprisonment for debt continued to be a nightmare, though its extent has been greatly exaggerated. As late as 1830 hundreds of penniless persons were languishing in filthy holes, sometimes for owing less than one dollar. The poorer working classes were especially hard hit by this merciless practice. As the embattled laborer won the ballot and asserted himself, the state legislatures gradually abolished debtors' prisons.

What would Bastiat have to say about Bailey's analysis? In particular, how might Bastiat react to Bailey's claim that the poor were "especially hard hit by this merciless practice"? You do not need to diagram your answer.