



B.E. International Program

Faculty of Economics, Thammasat University



EE 211 Principle of Microeconomics

Semester 1/2017

Exercise 1

1. How does a production possibility curve illustrate scarcity, choice, and opportunity cost?
2. Suppose you are selling your car in the used-car market after having spent 50,000 baht fixing it. Unfortunately, the transmission is broken just before you sell it. The used-car retailer informs you that you can sell your car for 3,000,000 baht if the transmission does not work. However, if the transmission works, you can sell your car for 3,200,000 baht. Should you fix the transmission if it costs 50,000 baht?
3. Suppose an economy can produce two products. When all resources are used efficiently, the combinations of outputs are given in the table below.

Milk (Million Gallons/Year)	Fruits (Thousand Tons/Year)
0	80
2.5	70
5	50
6.5	30
7.5	0

- a. Draw a graph that illustrates these combinations of outputs. What is it called? Correctly label the graph.
- b. Explain why the curve is downward sloping, and why it is concave to the origin.
- c. What do we know about the use of resources if the economy produces 2,500,000 tons of milk and 60,000 tons of fruits? What about if it produces 3,000,000 tons of milk and 70,000 tons of fruits?
- d. Suppose the economy is initially producing 5,000,000 gallons of milk and 50,000 tons of fruit, calculate the opportunity cost of producing additional 20,000 tons of fruits. How does this compare to the opportunity cost if the economy were initially producing 30,000 tons of fruits?

- e. Suppose that a group of scientists invent new medicine that can increase cow's milk production. How would the curve drawn in part b. change? Assume everything else remains constant.
 - f. Suppose instead that there is a flood that affects both milk and fruit production. How would the curve drawn in part b. change? Assume everything else remains constant.
4. Consider the following statements. Which is positive, and which normative?
- a. Bitcoin is a digital currency.
 - b. Bitcoins are desirable only among certain groups of population.
 - c. The use of bitcoins could become more popular in the future.
 - d. Taxes on supercars are likely to increase next year.
 - e. The NESDB forecasts that the GDP will increase by 3% this year.