

1. Suppose the following production possibilities frontier represents quantities of manufactured goods and services (the contribution of each to real GDP in billions of dollars) that can be produced in Wisconsin when using all of its resources efficiently.

Manufactured Goods	0	5	10	15	20
Services	100	90	70	40	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) Compute the marginal opportunity costs for each positive level of manufactured goods given in the table.
- (c) (5 points) Suppose an economy is not producing efficiently. Is it possible to increase production of manufactured goods without decreasing production of services? Illustrate with the above production possibilities frontier.
- (d) (5 points) Suppose there is an improvement in technology for producing manufactured goods. Illustrate the impact on the production possibilities frontier. Is it possible that production of services could increase as a result? Describe and illustrate.



5. (10 points) Suppose people expect a decline in financial asset values in American 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 European made final goods among American 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 Japan is a significant trading partner. Describe and illustrate the impact on the value of the Japanese Yen 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>2014</b>	
	<b>Price</b>	<b>Quantity</b>
<b>Veggie Burgers</b>	\$3.50	50
<b>Soy Dogs</b>	\$5.00	90

  

	<b>2015</b>	
	<b>Price</b>	<b>Quantity</b>
<b>Veggie Burgers</b>	\$4.50	65
<b>Soy Dogs</b>	\$6.00	100

(a) (10 points) Compute the growth rate of production using 2014 as a base year.

(b) (10 points) What was the inflation rate from 2014 to 2015?

(c) (10 points) Suppose you earned \$15 per hour in 2008 and you earned \$20 per hour in 2014. What was the growth rate of your nominal wage? Which year did your wages have greater purchasing power? Explain.