

(5 points) Answer the following essay question, writing only on the paper provided:

1. Use supply and demand analysis (graphs) to answer the following question. What is the likely impact of health insurance upon the market for medical care? Make sure you discuss the likely impact on prices, quantity exchanged, and efficiency. Briefly explain your answer.

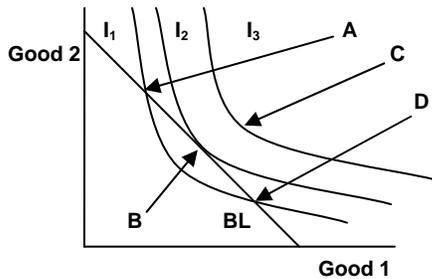
(10 points) Answer all of the following 10 multiple-choice questions. There are two extra credit questions as well that you may choose to answer. Make sure that your answers are coded in the answer sheet provided.

1. Normative economic analysis focuses on issues such as:
 - A. increasing the efficiency of markets.
 - B. Determining appropriate public policy goals such as when government interventions should occur.
 - C. Increasing equitable outcomes in markets.
 - D. All of the above are examples of normative analysis.
2. Which of the following statements are true?
 - I. A budget line measures consumer preferences.
 - II. The slope of a consumer's indifference curve for bikes and oranges is equal to negative the ratio of the prices of bikes and oranges.
 - A. both statements are true.
 - B. both statements are false.
 - C. I is true while II is false.
 - D. I is false while II is true.
3. Which of the following statements are true?
 - I. One of the main problem with using the dollars spent on medical care to measure health is that medical care is an input into the production of health.
 - II. Asymmetric information in health care markets occurs only when the provider has more information than does the patient.
 - A. both statements are true.
 - B. both statements are false.
 - C. I is true while II is false.
 - D. I is false while II is true.
4. Suppose that the income elasticity of demand for a product equals -2.5. This product must be :
 - A. A normal good.
 - B. A substitute good.
 - C. An inferior good.
 - D. A complementary good.
5. An individual maximizing her or his utility would choose their consumption levels such that:
 - A. The budget line was tangent to their indifference curve.
 - B. The marginal rate of substitution equals the opportunity cost of the good.
 - C. The slope of the budget line equals the slope of the indifference curve.
 - D. All of the above.
6. Which of the following statements are true?
 - I. Multiple regression analysis estimates the impact that one variable has upon another variable assuming that other variables may also change.
 - II. Two means are considered to be statistically different only if the chance of the difference occurring randomly is zero.
 - A. both statements are true.
 - B. both statements are false.
 - C. I is true while II is false.
 - D. I is false while II is true.
7. If it is observed that equilibrium price has increased while equilibrium quantity has decreased in a particular market, it is likely that:
 - A. supply has increased.
 - B. supply has decreased.
 - C. demand has increased.
 - D. demand has decreased.
8. Which of the following statements are true?
 - I. All else equal, as the price of a good rises the quantity demanded will increase.
 - II. All else equal, as the price of a good rises the quantity supplied will increase.
 - A. both statements are true.
 - B. both statements are false.
 - C. I is true while II is false.
 - D. I is false while II is true.
9. The lemon principle implies that most people will buy:
 - A. low quality products all the time.
 - B. low quality products when information is asymmetric.
 - C. high quality products all the time.
 - D. high quality products when information is asymmetric.
10. Which of the following statements are true?
 - I. When the price of a substitute good like apples rises then demand for a good like oranges also rises.
 - II. When technology increases demand also increases.
 - A. both statements are true.
 - B. both statements are false.
 - C. I is true while II is false.
 - D. I is false while II is true.

The Following Two Questions are Extra Credit

11. Suppose more individuals obtain health care insurance. What will be the impact on the health care market?
- A. Demand will increase, increasing both price and quantity.
 - B. Demand will decrease, increasing price but decreasing quantity.
 - C. Supply will increase, decreasing price and quantity.
 - D. Supply will decrease, increasing price and decreasing quantity.

Use the following Graph to answer question 12



12. In order to maximize her utility, the consumer pictured by the indifference curves and budget line in the graph above would choose to be at what point?
- A. A
 - B. B
 - C. C
 - D. D