Week #1 Worksheet Solutions – Economics ~ Law of Increasing Cost

1. Economists say that a thing is scarce when:
   a. only a finite amount exists.
   b. there is at least one use for the thing.
   c. **the amount available is less than what people would like to have.**
   d. the amount of the item is both finite and decreasing.

2. Suppose that jeans cost $25, assuming you are rational, how many pairs of jeans would you buy? (Fill out marginal cost and net gain columns) **4 pairs**

Pairs of Jeans	Marginal Benefit	Marginal Cost	Net Gain
1	55	**25**	**30**
2	50	**25**	**25**
3	42	**25**	**17**
4	34	**25**	**9**
5	24	**25**	**-1**
6	10	**25**	**-15**

3. The price of a ticket to a concert is $100 and your marginal benefit of seeing the concert is $110, would you see the concert assuming that you are rational?

   MC (100) < MB (110). The rational decision would be to buy a ticket.

   Suppose that the price of tickets increases to $115, would you see the concert assuming that you are rational?
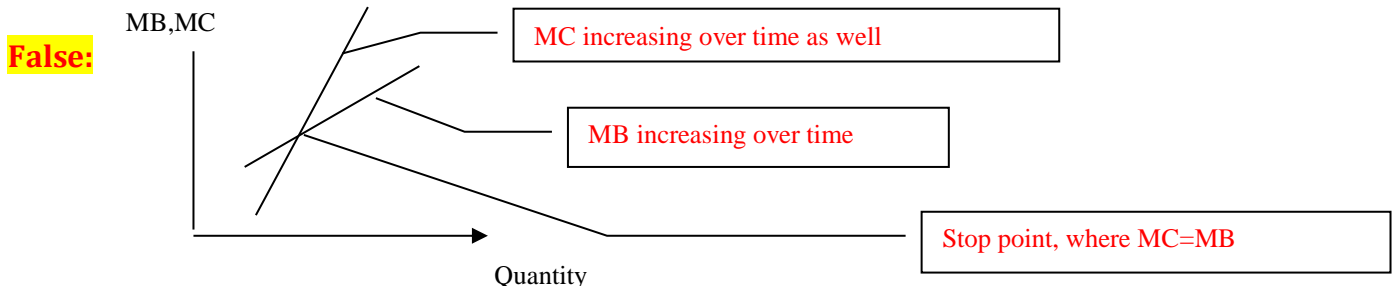
   MC (115) > MB (110). The rational decision would be not to buy a ticket.

4. Suppose you own two pairs of sneakers and the price of sneakers are $50. Your marginal benefit is $25. Would you buy another pair assuming that you are rational?
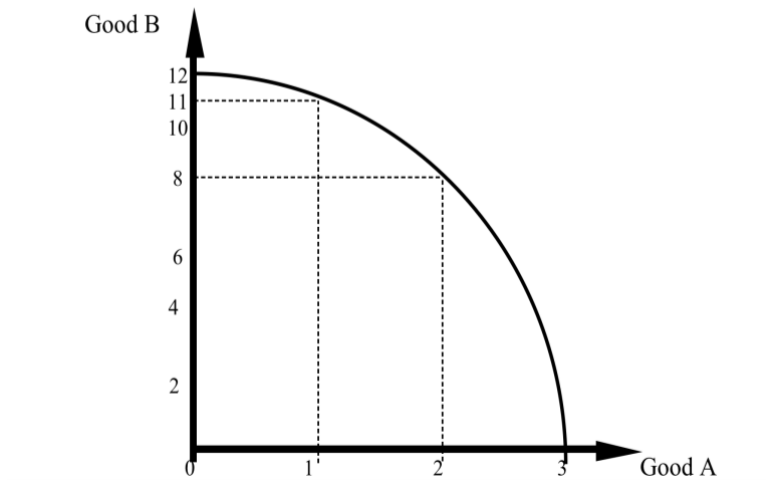
   MC (50) > MB (25). No, you would not buy another pair.

5. True or False and justify:

   If your marginal benefit of a given good increases as you consume more of the good, then you will always continue to consume more of this good.

False:

MB,MC

MC increasing over time as well

MB increasing over time

Stop point, where MC=MB

Quantity

6.

If this economy is presently producing 12 units of Good B and 0 units of Good A:

    a. The opportunity cost of increasing production of Good A from 0 units to 1 unit is the loss of __1__ unit(s) of Good B.

    b. The opportunity cost of increasing production of Good A from 1 unit to 2 units is the loss of __3__ unit(s) of Good B.

    c. The opportunity cost of increasing production of Good A from 2 units to 3 units is the loss of __8__ unit(s) of Good B.

7. True or False: The law of increasing costs applies to any production possibilities curve. ➔False. It does not apply to a constant-sloped PPC.