**Foundations of Economics**

**Seminar 1**

**Introduction to Economics**

**Q1. Opportunity Cost**

1. What is the opportunity cost of buying a new car?

A. The value of other goods and services you could have purchased with the money you spent on the car

B. The price you paid for the car

C. The cost of operating and maintaining the car

D. The difference between what the car costs now and what a similar car like it will cost a year from now

E. The difference between the price of the car and the price of a used car

1. Stephanie works for Microsoft and earns $170,000 per year. She considers starting her own business. If she starts this business, she will earn an income of $120,000 per year. What is the opportunity cost for Stephanie of starting her own business?

A. $0

B. $50,000

C. $90,000

D. $120,000

E. $170,000

1. For a business producing shirts and dresses, the opportunity cost of a dress is
2. the market price that the business can obtain for a dress.
3. the cost of the labour and raw materials used in making the dress.
4. the shirts that could have been produced with the resources used to make the dress
5. the total cost of all the resources used to make one dress.
6. A government spends $100 million on employing extra teachers instead of extra nurses. What will be the opportunity cost of this?

A. $100m

B. the cost of training extra teachers

C. the extra nurses

D. the reduction in unemployment among teachers

1. Chris can bake either 8 pies or 4 loaves of bread per hour. For Chris, the opportunity cost of baking an extra pie is

A. 2 loaves of bread

B. 1/2 a loaf of bread

C. 2 pies

D. one loaf of bread

E. 12 loaves

**2. Read the following article and answer the questions**

**How much do your choices cost you?**

**J.D. Roth July 11, 2011, TIME magazine**

To save money recently, [I’ve been walking and biking for short trips in my neighborhood instead of driving.](http://moneyland.time.com/2011/06/07/fighting-the-high-cost-of-fuel-%E2%80%94-with-my-feet/?WT.qs_osrc=TIM) Suddenly I have a lot more time to think. And because I make my living by writing about personal finance, it turns out I often find myself thinking deep thoughts about money.

On a recent 2-1/2 mile walk home from the gym, I started wondering about trade-offs. What am I giving up by walking all of the time instead of driving? What am I gaining? (Besides time to think, that is.)

[Every purchase is a trade-off](http://www.getrichslowly.org/blog/2011/07/05/every-purchase-is-a-trade-off/?WT.qs_osrc=TIM), of course. If you decide to spend $20,000 on a new car, you’re saying that’s worth more to you than 20 bicycles or four vacations to [Europe](http://topics.time.com/europe/) or the down payment on a house. Every choice involves opportunity costs; when you choose one thing, you’re giving up others. Plus, what you’re giving up isn’t always financial. Or obvious.

These trade-offs are natural, and we make them every day. But how often do we crunch the numbers to see which choice would actually be best? I’m willing to bet it doesn’t happen often.

So, what am I giving up by walking all of the time? And what am I gaining? I made some quick calculations to see.

* When I drive to the gym, it takes 20 minutes each way to make the 8.5 mile trip. (There’s a shortcut I can take on foot.) According to [estimates by AAA](http://www.aaaexchange.com/main/Default.asp?CategoryID=16&SubCategoryID=76&ContentID=353), it costs about 58 cents per mile to run my car. That’s a total cost of nearly $10 every time I go to the gym.
* When I walk to the gym, it takes 40 minutes each way to make the 2.5 mile trip. Plus I’m getting more exercise, and I can use my phone to read email on the quiet streets and paths.

So, when I drive, I’m essentially paying $10 but gaining 40 minutes. When I walk, I lose time but I’m “earning” $15 an hour. That’s not a lot — but it’s not peanuts either. There are other benefits, too. When I walk, I’m getting exercise. My five-mile round trip burns roughly 500 calories. And, of course, I have time to think deep thoughts about money.

There’s nothing earth-shattering in this analysis, but it’s still interesting to see the numbers. It strengthens my conviction to walk when possible. (But it also helps me realize that it makes perfect sense to drive on days I’m pinched for time.)

Now I’m interested to run the numbers on other trade-offs in my life. What are the pros and cons of living in a drafty old house instead of renting an apartment? What are the costs — in time and money — of dining out instead of preparing meals at home? And what will I need to give up to make room in my budget for [world travel](http://www.farawayplaces.com/)?

What sorts of financial trade-offs have you made in your own life? How many of these are conscious decisions? How many are quiet, subtle things you only noticed after the fact? Have you run the numbers on these trade-offs? Would you make the same choices again?

**Q3. Factors of production**

Which of the following is not a factor of production?

A. Immigrant workers

B. Infrastructure such as motorways and drains

C. Money held in bank

D. Reserves of oil and gas not yet exploited

**Q4. Production Possibility Frontier in Uzbekistan**

0

100

200

500

100

150

200

300

**Manufactured goods (mln)**

250

300

400

50

A

B

**Non-manufactured goods (mln)**

1. What is the opportunity cost of increasing the volume of manufactured goods produced while moving from A to B?
2. In 2013 3-5 mln of workers from Uzbekistan migrated for work to Russia. What effect may it have on the PPF?
3. In 2015 Government of Uzbekistan plans to spend $49, 9 mln on the development of secondary education in the Aral Sea region (gazeta.uz, 29 December, 2014). What is a potential impact of such investment on the PPF?

**Q5. Which of the following statements are the concern of microeconomics and which of macroeconomics?**

1. Along with other Western economies, the UK faced a sharp rise in unemployment in the early 1980s.
2. The imposition of higher taxes on tobacco will discourage smoking.
3. A firm will invest in a machine if the expected rate of return is sufficiently high.
4. An increase in a society’s aggregate income is likely to be reflected in higher consumer spending.
5. A worker who has received a pay rise is likely to be reflected in higher consumer spending.
6. Higher interest rates in an economy may be expected to discourage aggregate investment.