Section I, Multiple Choice: Circle the letter in front of the best answer.

1. Price instability in agriculture can be largely explained by  
   a. inelastic demand and supply variability.  
   b. inelastic demand and demand variability.  
   c. elastic demand and supply variability.  
   d. elastic demand and demand variability.  

2. For which of the following programs do consumers buy agricultural goods at a price that is lower than the equilibrium price?  
   a. Price support program  
   b. Supply restriction program  
   c. Demand enhancement programs  
   d. Target price / deficiency payment program  

3. Which of the following is an example of a demand enhancement program?  
   a. The school lunch program  
   b. Food Stamps  
   c. Export promotion programs  
   d. (a) and (b)  
   e. all of the above  

4. Without price supports in place, there would likely be  
   a. fewer farmers.  
   b. lower prices.  
   c. both (a) and (b).  
   d. neither (a) nor (b).  

5. When two countries who had not been trading now initiate trade between each other, with Country A exporting apples and Country B exporting bananas,  
   a. apple consumers in A and banana consumers in B benefit.  
   b. apple growers in A and banana growers in B benefit.  
   c. apple and banana consumers in both countries benefit.  
   d. apple and banana growers in both countries benefit.  

6. In one hour, Barry can either iron 4 shirts or fold 2 baskets of laundry, while in the same time, Mary can either iron 2 shirts or fold 7 baskets of laundry. Barry and Mary can  
   a. gain from exchange if Barry specializes in folding and Mary in ironing.  
   b. gain from exchange if Barry specializes in ironing and Mary in folding.  
   c. specialize and exchange, but only Barry will gain from the exchange.  
   d. specialize and exchange, but only Mary will gain from the exchange.  

7. When a tariff is imposed on what had been a freely traded good,  
   a. the importing country will experience a reduction in the gains from trade.  
   b. the exporting country will experience a reduction in the gains from trade.  
   c. Both (a) and (b) are true.  
   d. None of the above.  

8. A tariff is  
   a. a tax on an imported good.  
   b. a restriction on the quantity of an imported good.  
   c. a requirement regarding the quality of an imported good  
   d. None of the above.  

Section II, Direct Questions: Answer each of the following questions. You will be graded on your xxx best responses.
A. What can you say about the range of price and quantity variability with respect to elastic and inelastic demand curves?

B. One of the agricultural support programs that we studied was the “target price / deficiency payment” program. Explain briefly what is meant by each of these terms:

Target Price

Deficiency Payment

C. What are the options available to the U.S. government if the government buys surplus commodities (i.e., the excess supply) that result from a price support program? Explain briefly what is meant by each option.

D. What is a “Consumption Possibilities Frontier”? Explain. On the diagram to the right, draw a reasonable Consumption Possibilities Frontier for a country that is exporting Hamburger and importing Vegetables. Be sure to label each axis appropriately.

E. As referred to in the text and in class, what is “protectionism”? Who requests protection? Why is protection requested? To whom does one go to request protection?
Section III, Problems

A. Two neighboring countries, Eastland and Westland, have the following production possibilities frontiers for milk (measured in gallons) and meat (measured in pounds). Suppose each country in isolation produces and consumes 6 gallons of milk and 4 pounds of meat per person per week (denoted by the small circle on each country’s PPF).

1. Calculate the opportunity cost of Meat in each country.

Which country has the absolute advantage in meat production? ____________________

Which country has the comparative advantage in meat production? ____________________

2. Using the diagram above, SHOW (numerically or graphically) and EXPLAIN how these two nations can gain from specialization and exchange.

3. Draw a Consumption Possibilities Frontier (CPF) for each country that would be acceptable to each country. Label this CPF with the letter “A”. Then draw a second CPF for each country that would be preferred by that country, and label that CPF with a “P”.

B. On the diagram to the right, show (draw in) the impact of a price support program designed to raise the price of agricultural products to $P_H$.

C. On the diagram to the right, show (draw in) the impact of a marketing limit program designed to raise the price of agricultural products to $P_H$. 