



ECO 1311, University of Dallas
Thinking Link an Economist-- Practice Problems

1. Many people believe that the study of economics is focused on money and financial markets. How would you define economics?
2. Circa 1200 BC, a decreasing supply of tin due to wars and the breakdown of trade led to a drastic increase in the price of bronze in the Middle East and Greece because tin is necessary for the production of bronze. Around this same time that blacksmiths developed iron- and steel-making techniques as substitutes for bronze.
 - a. How is the increasing price of bronze a signal?
 - b. How is the increasing price of bronze an incentive?
 - c. How do your answers in parts a and b help explain why iron and steel became more common around the same time as the increase in price of bronze?
3. You have decided that you are going to consume 600 calories of beer and snacks at a party Saturday night. A beer has 150 calories and a snack has 75 calories.
 - a. Create a table that shows the various combinations of beer and snacks you can consume. To keep things simple, use only round numbers (e.g., you could choose 1 or 2 beers but not 1.5 beers).
 - b. What is the opportunity cost of a beer?
4. Estimating opportunity costs and assessing decisions:
 - a. What is the opportunity cost of taking a year after graduating from high school and backpacking across South America? Are people who do so being irrational?
 - b. What is the opportunity cost of taking a year after graduating from college and backpacking across South America? Are people who do so being irrational?
 - c. Which backpacking trip has the higher opportunity cost?
5. In the following examples, find the opportunity cost. Your answer should be a rate, as in "1.5 widgets per year" or "6 lectures per month". Assume that these relationships are simple linear ones, so that if you put in twice the time, you get twice the output, and half the time yields half the output.
 - a. Erin has a choice between two activities: she can repair one transmission per hour or she can repair two fuel injectors per hour. What is the opportunity cost of repairing one transmission?

Some problems have been extracted and/or adapted from:

- Cowen, Tyler, and Alex Tabarrok. *Modern principles of microeconomics*. Macmillan International Higher Education, 2015.
- Acemoglu, Daron, David Laibson, and John List. *Economics, global edition*. Pearson, 2015.
- Miller, Roger LeRoy. *Economics Today: The Micro View*. Pearson, 2018.

- b. Katie works at a customer service center and every hour she has a choice between two activities: answering 200 telephone calls per hour or responding to 400 emails per hour. What is the opportunity cost of responding to 400 phone calls?
- c. Deirdre has a choice between writing one more book this year or five more articles this year. What is the opportunity cost of writing half of a book this year in terms of articles?

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