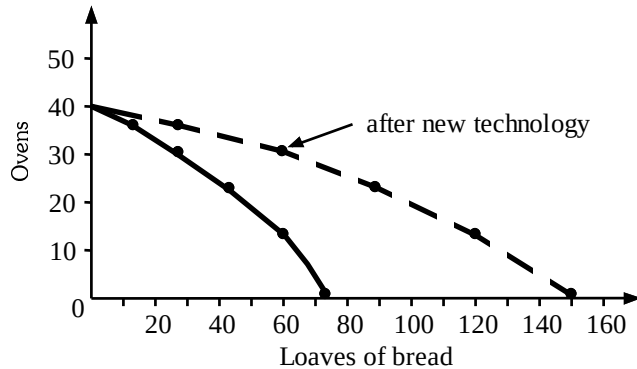


## HOMEWORK I SOLUTIONS

1.



- b. Yes, increasing cost applies. The opportunity cost of the first 15 million loaves of bread is 4 ovens, of the next 15 million loaves, 6 ovens; and so on.
  - c. Over time, as the number of ovens increases, the capacity to produce bread with the same quantity of other resources will also increase. Thus, the production possibilities curve will shift out horizontally to the right. The vertical intercept (maximum possible oven production) will remain unchanged, but the horizontal intercept (maximum possible bread production) will increase.
  - d. See graph in a above.
  - e. Before the new technology, production of 22 ovens left enough resources to produce 45 loaves of bread. After the new technology, production of 30 ovens leaves enough resources to produce 60 loaves of bread.
- 2a. The opportunity cost of packing a bag is 2 sandwiches and the opportunity cost of making a sandwich is 0,5 bags packed.
  - b. The opportunity cost of packing a bag is 3 sandwiches and the opportunity cost of making a sandwich is 1/3 bags packed.
- a. Goods sold by firms.
  - b. Expenditures by households.
  - c. C
  - d. H