

Quiz 3

Imagine a society that produces military goods and consumer goods, which we'll call "guns" and "butter."

1. Draw a production possibilities frontier for guns and butter. Using the concept of opportunity cost, explain why it most likely has a bowed-out shape.
2. Show a point that is impossible for the economy to achieve. Show a point that is feasible but inefficient.
3. Imagine that the society has two political parties, called the Hawks (who want a strong military) and the Doves (who want a smaller military). Show a point on your production possibilities frontier that the Hawks might choose and a point that the Doves might choose.
4. Imagine that an aggressive neighboring country reduces the size of its military. As a result, both the Hawks and the Doves reduce their desired production of guns by the same amount. Which party would get the bigger "peace dividend," measured by the increase in butter production? Explain.