Section Exercise for January 25/26:

1) The economy of the university town of Avicenna (if you wish, cf.: Peter Beagle (1986): The Folk of the Air http://amzn.to/1RxRFQJ (New York: Del Rey: 0345337824)) produces two and only two commodities: yoga lessons, and triple lattes. The economy is able to produce any of the following combinations of yoga and lattes per day:

Daily Production in Avicenna

Combination	Yoga Lessons	Triple Lattes
A	5000	0
B	4000	9000
C	3000	16000
D	2000	21000
E	1000	24000
F	0	25000

a) Using the data in the table, graph the daily production possibilities frontier (ppf) of the Avicenna economy. Put triple lattes ("TL") on the vertical axis.

b) Does the principle of "increasing opportunity cost" hold in this town's economy? Think about what happens to the opportunity cost of TLs—measured in units of yoga lessons ("YL")—as the amount of resources devoted to producing TLs increases. Explain briefly.

c) On your graph, pick and label one point that is: (i) an impossible and unattainable level of YL and TL production, (ii) an attainable but inefficient level of YL and TL production, (iii) an efficient level of production of YL and TL, (iv) a value-maximizing level of production of YL and TL if a TL is worth $2.50 and a YL is worth $10; (v) a value-maximizing level of production of YL and TL if a TL is worth $1 and a YL is worth $10; and (vi) a value-maximizing level of production of YL and TL if a TL is worth $5 and a YL is worth $10.

3) The economy of the university town of Old Stick, home of Crony Capitalism University, produces two and only two commodities: social network startups ("SNS"), and triple lattes (TL). The economy is able to produce any of the following combinations of SNSs and TLs per day:

Daily Production in Old Stick

Combination	Social-Network Startups	Triple Lattes
A	0	0
B	2	5000
C	3	10000
D	2	15000
E	0	20000

a) Using the data in the table, graph the daily production possibilities frontier (ppf) of the Old Stick economy. Put triple lattes ("TL") on the vertical axis.

b) Does the principle of "increasing opportunity cost" hold in this town's economy? Think about what happens to the opportunity cost of SNSs—measured in units of TLs—as the amount of resources devoted to producing TLs increases. Explain briefly.

c) On your graph, pick and label one point that is: (i) an impossible and unattainable level of SNS and TL production, (ii) an attainable but inefficient level of SNS and TL production, (iii) an efficient level of production of SNSs and TLs.

3) The economy of the university town of Avicenna (if you wish, cf.: Peter Beagle (1986): *The Folk of the Air* http://amzn.to/1RxRFQJ (New York: Del Rey: 0345337824)) produces two and only two commodities: yoga lessons, and triple lattes. The economy is able to produce combinations of yoga YL and lattes TL per day given by: $TL = 25000 - (YL)^2 /1000$.

a) Using the equation, graph the daily production possibilities frontier (ppf) of the Avicenna economy. Put triple lattes ("TL") on the vertical axis.

b) Does the principle of "increasing opportunity cost" hold in this town's economy? Think about what happens to the opportunity cost of TLs—measured in units of yoga lessons ("YL")—as the amount of resources devoted to producing TLs increases. Explain briefly.

c) On your graph, pick and label one point that is: (i) an impossible and unattainable level of YL and TL production, (ii) an attainable but inefficient level of YL and TL production, (iii) an efficient level of production of YL and TL, (iv) a value-maximizing level of production of YL and TL if a TL is worth $2.50 and a YL is worth $10; (v) a value-maximizing level of production of YL and TL if a TL is worth $1 and a YL is worth $10; and (vi) a value-maximizing level of production of YL and TL if a TL is worth $5 and a YL is worth $10.

d) What is the difference between your answer to (1) and your answer to this question (3)?