1) (10 points) Explain the rationale behind trading even if you have absolute advantage.

Absolute advantage doesn't imply comparative advantage in all goods. You should produce the good (specialize) that has the lowest opportunity cost and then trade.

2) (10 points) Graphically, compare the consumption level of market equilibrium with that of a price floor. Which one is higher?

3) (12 points) Below information for the market in Oreo cookies is given:

Demand: \[ P = 100 - 2Q \]
Supply: \[ P = 40 + Q \]

a. Find equilibrium Price and Quantity

\[ 100 - 2Q = 40 + Q \]
\[ Q = 20 \]

\[ P = 40 + 20 = 60 \]

b. Calculate consumer surplus.

\[ \text{Consumer Surplus} = \frac{(100 - 60) \times 20}{2} = 400 \]
4) (12 points) Graph the affect on the price of orange of
   a. an increase in personal income?
   b. an ice storm?
   c. an improved way of growing oranges?
   d. both a and c?

   ![Graphs showing demand and supply curves]

5) (16 points) Assume you have the following taste for ice cream.
   a. Fill in the table

<table>
<thead>
<tr>
<th>Scoops</th>
<th>TU</th>
<th>MU</th>
<th>Net MU</th>
<th>Net TU</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>2</td>
<td>0.75</td>
<td>0.75</td>
<td>1.25</td>
</tr>
<tr>
<td>2</td>
<td>3.85</td>
<td>1.85</td>
<td>0.60</td>
<td>1.35</td>
<td>1.25</td>
</tr>
<tr>
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<td>1.80</td>
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</tr>
<tr>
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<td>1.95</td>
<td>1.25</td>
</tr>
<tr>
<td>5</td>
<td>7.95</td>
<td>1.00</td>
<td>-0.25</td>
<td>1.70</td>
<td>1.25</td>
</tr>
<tr>
<td>6</td>
<td>8.6</td>
<td>0.65</td>
<td>-0.60</td>
<td>1.10</td>
<td>1.25</td>
</tr>
</tbody>
</table>

   b. How many scoops of ice cream would you buy? Why not more?

   4 scoops, 5th one is worth less than its price

   c. What is the consumer surplus at this level?

   \[ CS = NTU = 1.95 \]