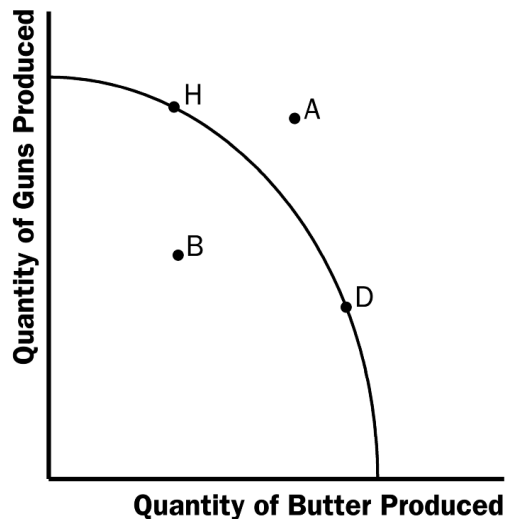


Quiz 2 answers

a. The figure below shows a production possibilities frontier between guns and butter. It is bowed out because the opportunity cost of butter depends on how much butter and how many guns the economy is producing. When the economy is producing a lot of butter, workers and machines best suited to making guns are being used to make butter, so each unit of guns given up yields a small increase in the production of butter. Thus, the frontier is steep and the opportunity cost of producing butter is high. When the economy is producing a lot of guns, workers and machines best suited to making butter are being used to make guns, so each unit of guns given up yields a large increase in the production of butter. Thus, the frontier is very flat and the opportunity cost of producing butter is low.



b. Point A is impossible for the economy to achieve; it is outside the production possibilities frontier. Point B is feasible but inefficient because it is inside the production possibilities frontier.

c. The Hawks might choose a point like H, with many guns and not much butter. The Doves might choose a point like D, with a lot of butter and few guns.

d. If both Hawks and Doves reduced their desired quantity of guns by the same amount, the Hawks would get a bigger peace dividend because the production possibilities frontier is much flatter at point H than at point D. As a result, the reduction of a given number of guns, starting at point H, leads to a much larger increase in the quantity of butter produced than when starting at point D.