ECON 310
Assignment #1
HOMEWORK QUIZ: Tuesday, September 2

1. Chapter 1, Problem Set #s 10, 11, 13b,c ***NOTE: IN 7TH EDITION, THESE PROBLEMS ARE 11,12&14B,C***

2. Suppose the demand curve for a good is given by Q= -12P + 2400 and the supply curve is given by Q = 8P – 400.

i. Find the equilibrium price and quantity.
ii. Suppose the government imposes a $50 per unit excise tax. The tax's legal incidence is paid by _______________.
iii. Find the new market price and equilibrium quantity.
iv. What is the price actually paid by demanders? What is the price actually received by suppliers?
v. What percent of the tax is paid by demanders? Suppliers?
vi. If the demand curve were steeper, demanders would pay a ___________ percent of the tax.
vii. Suppose this tax was a sales tax. Who would pay the legal incidence of this tax?
viii. Under a sales tax, what is the new equilibrium price and quantity? What price do demanders pay? What price do suppliers receive?
ix. Illustrate the two scenarios graphically.
x. If you are a supplier, under which scenario would you prefer to be taxed? Why?

3. Chapter 2, Numerical Exercise N1

4. Chapter 2, Problem Set #1

5. Multiple Choice

i. If the demand of oil rises and all other relevant factors remain unchanged, then
- A. the supply for oil will fall
- B. the quantity supplied of oil will fall
- C. the supply for oil will rise
- D. the quantity supplied of oil will rise

ii. The term demand refers to
- A. a collection of numbers, listing the quantities demanded at a variety of hypothetical prices.
- B. the information on tastes, incomes, and prices needed to determine people's desired purchases of a commodity.
- C. the amount of a commodity that is being purchased under current market conditions.
- D. the quantity purchased at each and every possible level of income.

iii. The price of silver increases from $10 per ounce to $15 per ounce while the price of gold increases from $300 per ounce to $500. In this situation, the price of silver relative to the price of gold has
- A. fallen.
- B. risen.
- C. remained the same.
- D. cannot be determined given the information provided.

iv. Suppose there are only two goods: milk and honey. If the relative price of milk falls, then the relative price of honey

a. must also fall.
b. must rise.
c. is unaffected.
d. could rise, fall, or remain unchanged.

v. If inflation causes the absolute prices of all commodities to double, then the relative prices

a. will also double.
b. will be halved.
c. will be unchanged.
d. may rise, fall, or remain unchanged.

vi. Suppose there are only two goods: food and clothing. What does it mean for the U.S. to have a comparative advantage in food production?

a. The U.S. needs fewer resources to grow a given amount of food than do other nations.
b. The U.S. sacrifices less clothing production to grow a given amount of food than do other nations.
c. In the U.S., food production needs fewer resources than does a comparable amount of clothing production.
d. In the U.S., food production costs less than does clothing production.

vii. Comparing a market basket A to other market baskets, we can say that for a typical consumer, A is preferred to baskets to the

A. southwest but less preferred to baskets to the northeast
B. northeast but less preferred to baskets to the southwest
C. northwest but less preferred to baskets to the southeast
D. southeast but less preferred to baskets to the nort

viii. An indifference curve shows the baskets of goods which

a. have the same marginal values.
b. the consumer can purchase, given his income and the prices he faces.
c. are the most preferred of the baskets within his budget.
d. are all equally desirable, providing the consumer with some fixed level of satisfaction.

ix. Under standard assumptions, which of the following is *not* a property of indifference curves?

a. They are downward sloping and convex.
b. They fill the plane and never cross.
c. Their slope is equal, in magnitude, to the relative price of the goods.
d. Baskets on indifference curves further away from the origin provide more satisfaction than those which are closer to the origin.