

ECON 310

Assignment #1

HOMEWORK QUIZ: Monday, Feb 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
- must also fall.
 - must rise.
 - is unaffected.
 - could rise, fall, or remain unchanged.
- v. If inflation causes the absolute prices of all commodities to double, then the relative prices
- will also double.
 - will be halved.
 - will be unchanged.
 - 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?
- The U.S. needs fewer resources to grow a given amount of food than do other nations.
 - The U.S. sacrifices less clothing production to grow a given amount of food than do other nations.
 - In the U.S., food production needs fewer resources than does a comparable amount of clothing production.
 - 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
- southwest but less preferred to baskets to the northeast
 - northeast but less preferred to baskets to the southwest
 - northwest but less preferred to baskets to the southeast
 - southeast but less preferred to baskets to the north
- viii. An indifference curve shows the baskets of goods which
- have the same marginal values.
 - the consumer can purchase, given his income and the prices he faces.
 - are the most preferred of the baskets within his budget.
 - 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?
- They are downward sloping and convex.
 - They fill the plane and never cross.
 - Their slope is equal, in magnitude, to the relative price of the goods.
 - Baskets on indifference curves further away from the origin provide more satisfaction than those which are closer to the origin.