ECON 310
Assignment #1
Due: September 12, 9:00am
Please write your answers on a separate piece of paper and *show all of your work*.
Make sure you write legibly!

1. Chapter 1, *6th edition:* Problem Set #s 10, 11, 14b,c (*7th edition*: Problem Set #s 11, 12, 15b,c) [**14 pts total]**

2. Suppose the demand curve for a good is given by Q= -12P + 2400 and the supply curve is given by Q = 8P – 400. **[20 points total]**

   i. Find the equilibrium price and quantity. [2pts]

   ii. Suppose the government imposes a $50 per unit excise tax. The tax's legal incidence is paid by _______________. [1pt]

   iii. Find the new market price and equilibrium quantity. [2pts]

   iv. What is the price actually paid by demanders? What is the price actually received by suppliers? [2 pts]

   v. What percent of the tax is paid by demanders? Suppliers? [2pts]

   vi. If the demand curve were steeper, demanders would pay a ___________percent of the tax. [1pt]

   vii. Suppose this tax was a sales tax. Who would pay the legal incidence of this tax? [1pt]

   viii. Under a sales tax, what is the new equilibrium price and quantity? What price do demanders pay? What price do suppliers receive? [4 pts]

   ix. Illustrate the two scenarios graphically. Note- you do not need to draw to scale. Just illustrate the effect of an excise and a sales tax in general. [4pts]

   x. If you are a demander, under which scenario would you prefer to be taxed? Why? [1pt]

3. Chapter 2, Numerical Exercise N1 **[8 pts]**

4. Chapter 2, Problem Set #1 **[2 pts]**

5. Multiple Choice **[6 pts]**

i. If the demand of oil falls 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. 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 northwest

v. 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.

vi. When Arnold has 5 eggs, his marginal value is 15¢ per egg. We can conclude that Arnold

a. places a value of 3¢ on each egg he owns.
b. needs to purchase more than 5 eggs to reach his optimum.
c. receives 75¢ worth of total satisfaction from his 5 eggs.
d. would refuse to pay more than 15¢ for a sixth egg.