

Two Assignments

1. The first assignment is a journal assignment. It should be completed by February 2. Completing the assignment is part of preparing for class on February 2.
 - a. Read the *New York Times* article, “As Price of Oil Soars, Users Shivers and Cross Their Fingers.” The article is posted at (<http://www.unc.edu/~salemi/Econ101H.html>).
 - b. Write a 200 word essay in your course journal in which you use demand and supply analysis to interpret the article.
 - c. According to the article, how does the decline in the price of natural gas affect the demand schedule for home heating oil in the short run (one year)? In the longer run (say five years)? Why is there a difference in the short and long run effects on the demand for heating oil of a fall in the price of natural gas? Please make a separate entry in your journal in which you answer the questions posed in this part of the assignment.

2. The purpose of the second part of this assignment is for you to use demand and supply theory to interpret the results of the market simulation that took place in Class 6. Please complete this assignment before class on January 31.

Simulation Overview

Each player was assigned to the role of either BUYER or SELLER. Buyers and sellers received their instruction through authorization slips. The buyer slip said: “You are authorized to buy one box of computer chips. Pay as little as possible. If you pay more than ____ per box, you lose money”. The seller slip said: “You are authorized to sell one box of computer chips for as much as possible. If you accept less than _____ per box, you lose money”.

The following table gives the distribution of buyer and seller prices that were printed on the buyer and seller slips

Prices	Buyer	Seller
\$5.10	4	2
\$4.90	6	2
\$4.70	6	2
\$4.50	4	2
\$4.30	4	4
\$4.10	2	4
\$3.90	2	6
\$3.70	2	6
\$3.50	2	4

Each player remained a buyer and seller for all four rounds of the game. Each player was told to maximize profit and was allowed to make multiple transactions in a round. The profit of a transaction for a buyer was computed as authorization price minus transaction price. The profit of a transaction for a seller was computed as transaction price minus authorization price.

Data

You will find on the course web page (<http://www.unc.edu/~salemi/Econ101H.html>) a table that reports the transaction prices that were achieved in each round of the simulation. Transactions were allowed in increments of \$0.10.

Assignment

Write an essay in which you evaluate the results of the simulation. In the essay you should answer the following questions and provide support for each of your answers.

- a. What does economic theory predict to be the equilibrium price of a box of computer chips? Explain in detail and support your explanation with an appropriate graph.
- b. Do the results of the simulation support or contradict the prediction of economic theory? Explain in detail.
- c. How would Adam Smith use the concept of the “Invisible Hand” to explain the results of the simulation?

Turn in your essay at the beginning of class on Tuesday, January 31. It will be graded.