

Homework Assignment I

The Homework will be prepared in electronic format and submitted to Turnitin by Monday, March 28th noon (12:00 p.m.) using the information below. Make sure to respond to these questions alone.

class ID: 3914678

enrollment password: ECONMAN

Question 1: The market for (pairs of) calf-skin gloves is represented by the supply function $Q_s = 10P - 100$ and the demand $Q_D = 125 - 5P$.

- a. Find the equilibrium price and quantity of pairs of gloves.
- b. Find the consumer surplus and producer surplus at this market equilibrium.
- c. Find the price elasticity of demand and the price elasticity of supply around the equilibrium.
- d. Assume that due to the negative effects on milk production, glove-making has an additional cost of 30 TL on the society at each level of production.
 - i. Find the socially optimal level of calf-skin gloves production and price.
 - ii. Find the deadweight loss.
 - iii. Can this problem be internally resolved? Why or why not?
 - iv. If an intervention is needed what is the type of intervention, and on whom?
 - v. Assume that the above mentioned intervention is done to the producers. What is the total value of the tax/subsidy?
- vi. Find the new consumers' surplus, producers' surplus after the intervention. Who gets affected more? Explain why.
- vii. Can the government restore the consumers' and producers' surpluses back to their original level?

Question 2: Since last August the rental housing prices have been falling in most cities in the US. The connection between residential real estate and the current crisis has led many observers, and one Presidential candidate, to argue that the government should step in and try to stop the rental housing prices from falling further. Alongside with the goal of ensuring higher housing prices the authorities also want to ensure that people do not end up homeless (take this word to mean: not being able to find a place to live in). The IMF has decided to provide consulting to the US authorities by preparing a report on alternative policy options. The three options they are considering are (1) price controls on rental houses, (2) subsidies to supplying rental houses and. Write a paragraph for each of the two policy options from above on (i) the effectiveness of the policy instrument in achieving the goals of the authorities, (ii) the welfare effects on people who demand homes and people who supply homes, (iii) the welfare effects on the aggregate economy and (iv) the economic effects on the government.

Question 3: Fill in the table below and discuss which effect dominates to produce the below estimated elasticities (according to an article published in 1997): Gasoline (short-run): 0.2, Gasoline (long-run): 0.7, toothpicks: 0.1, airline travel (short-run): 0.1, airline travel (long-run): 2.4, housing (long-run): 1.2

	Gasoline (short-run)	Gasoline (long-run)	Toothpicks	Airline travel (short-run)	Airline travel (long-run)	Housing, owner occupied (long run)
Are good substitutes available? If yes list a few						
Is the good a necessity?						
Is the expenditure on the good a large portion of one's income?						
Is the time frame large or small?						
What can you say about the goods elasticity (at current market prices)? Inelastic, elastic, or almost unitary elastic						