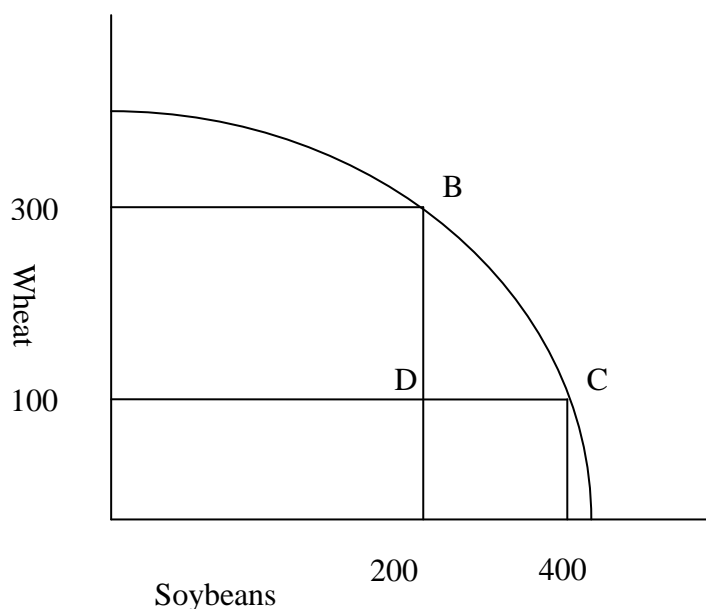


HW I

- 1) Assume the production possibility frontier below:



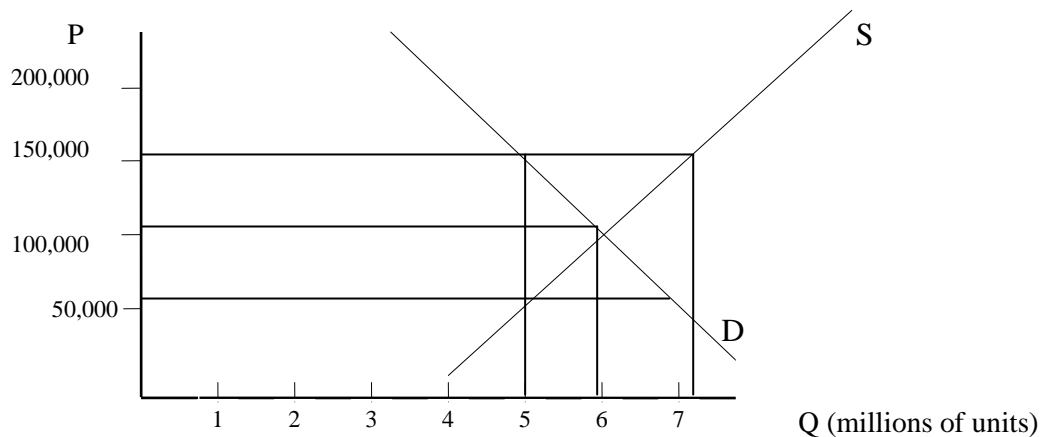
- a. What is the opportunity cost of moving from D to B?
 - b. What is the opportunity cost of moving from B to C?
 - c. Define efficiency.
 - d. Which point represents potential improvement in efficiency?
- 2) The following are the assumed supply and demand schedules for hamburgers in Collegetown:

<u>Price</u>	<u>Quantity Demanded</u>	<u>Quantity Supplied</u>
\$2.00	6,000	15,000
1.75	8,000	14,000
1.50	10,000	13,000
1.25	12,000	12,000
1.00	14,000	11,000
0.75	16,000	10,000

- a. Plot the supply and demand curves and determine the equilibrium price and quantity.
 - b. What effect would a decrease in the price of beef (a factor of production) have on the equilibrium price and quantity of hamburgers, *ceteris paribus*? Explain referring to the graph.
 - c. What effect would an increase in the price of pizza (a substitute commodity) have on the equilibrium price and quantity of hamburgers, again *ceteris paribus*? Explain referring to the graph.
- 3) The city of Watson Transit Authority runs the only bus company in the city. The current price of a bus ticket is \$1.25 and 800,000 tickets are sold each week. An economic study has found the demand elasticity of tickets to be $|\epsilon_d| = 0.85$.

- Is demand elastic, unit elastic or inelastic?
- What is the total revenue for bus ticket sales?
- Should the Transit Authority increase or decrease ticket prices to increase total revenue?
- Suppose that the city wants to increase bus ridership by 10% for environmental reasons. What price level will accomplish this increase? [Hint: use the most general definition for demand elasticity to find percent change in price, then find the new price.]

4) The graph below represents the market for bread in Ankara.



- What is the equilibrium Price and Quantity?

Suppose that to insure that everyone can afford bread, which is a basic necessity, the government sets a maximum market price of 50,000 TL.

- This policy is an example of a price (floor or ceiling).
- The quantity of bread demanded under this policy is _____, the quantity supplied is _____, resulting in an excess _____ of _____ million units.
- If a black market for bread were established, what would the likely black market price of bread be?
- How much of a subsidy per unit would the government have to make in order for there the quantity supplied to equal the quantity demanded with a price of 50,000 TL?

- Briefly explain why most goods possess diminishing marginal utility. Also explain why this means that a typical individual's demand curve for a good is downward sloping.
- Before the American Revolution, the British required the American Colonies to follow certain rules known as the Navigation Acts. One of the rules required that all imports to the colonies from outside of the British Empire had to be shipped first to Great Britain. For instance, a colonial business in New York importing wine from France had to have the wine shipped first from France to Great Britain before it could be shipped to New York. This requirement increased the cost of importing goods into the colonies. Draw a graph to show the loss in economic efficiency from the Navigation Act on importation of wine into New York.