ASSIGNMENT 1: Covers Chapters 1-6. Topics: ***The Perspectives and Principles of Economics, Economists' way of thinking, Theories behind trading interdependence including comparative advantage, Fundamentals of supply and demand and application to government policies, Concept and application of Elasticity*****.**

SECTION 1: Multiple Choice (24 marks)

_a__ 1.

_a___ 3.

__c__ 5.

__d__ 7.

__b__ 9.

__a__ 11.

__a__ 13.

__b__ 15.

__b__ 17.

__c__ 19.

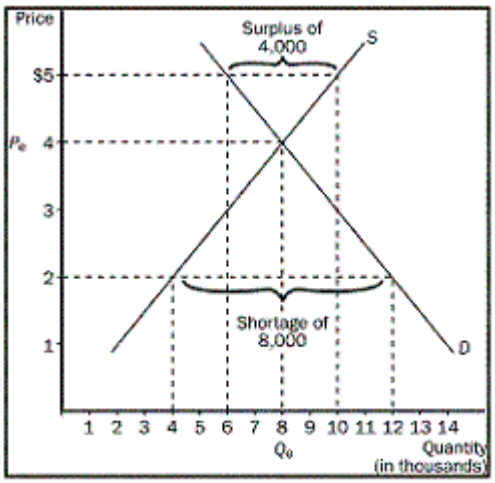
__c__ 21.

__a__ 23.

SECTION 2: SHORT FREE RESPONSE QUESTIONS.

1. ANS:
   Whatever must be given up to obtain some item is its opportunity cost. Basically, this would be a person's second choice. The opportunity cost of a person attending college is the value of the best alternative use of that person's time. For most students this would be the income the student gives up by not working. A student's opportunity cost of coming to class was the value of the best opportunity the student gave up.

3.



a.

b. Equilibrium price would be $4 and equilibrium quantity would be 8,000.

c. A surplus of 4,000 flashlights would be the problem in the economy and we would expect the price to fall.

d. A shortage of 8,000 flashlights would be the problem in the economy and we would expect the price to rise.

5.1 ANS:

a. Elasticity is 5 so the demand is elastic.

b. There is no substitute available, so demand is inelastic. (Although, over time, as more used textbooks become available, the price elasticity of demand will increase.)

c. Demand is unit-elastic: no matter what the price of coffee is, the total revenue to the producer (which is my total expenditure on coffee) remains the same.

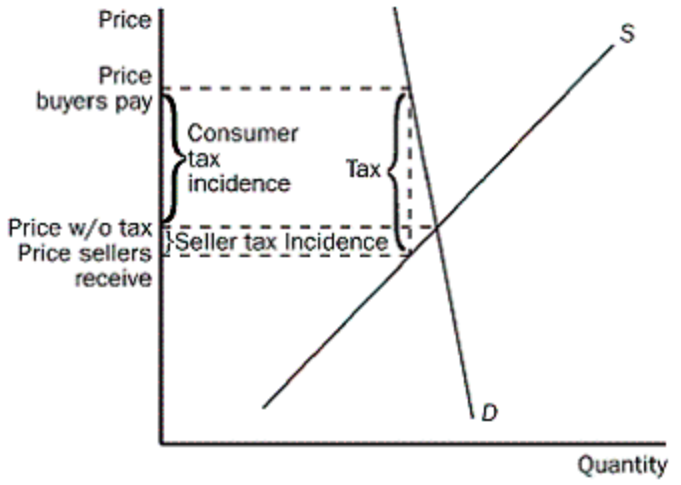
d. Demand is inelastic (elasticity = 0.2).

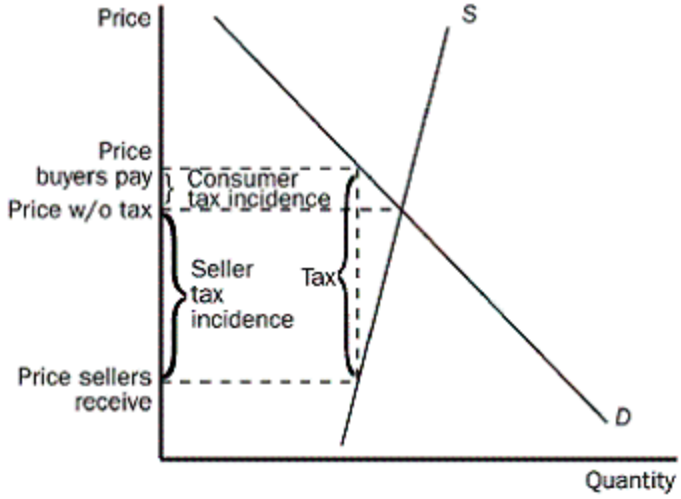
5.2. ANS:

Cross elasticity is equal to 0.5. Since the cross-price elasticity of demand between the Ford Fusion and regular gasoline is positive, your estimate says that the two are gross substitutes. This answer might seem perplexing because cars and gasoline are generally gross complements: you need gasoline to run a (gasoline-powered) car. So the complementary relationship between gas and cars implies that the cross-price elasticity between them is negative. But a Ford Fusion adds another dimension to the comparison: it is a fuel-efficient car, not a gas-guzzler. And fuel-efficient cars and gas guzzlers are gross substitutes.

7. ANS:

Whichever side of the market is more inelastic bears the larger burden.

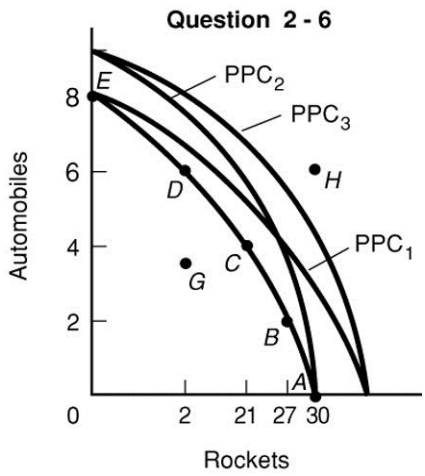




SECTION 3: LONGER FREE RESPONSE QUESTIONS. TOTAL MARKS: 36 MARKS.

QUESTION 1 IS COMPULSORY: TOTAL 20 MARKS

(a) See curve EDCBA. The assumptions are full employment and productive efficiency, fixed supplies of resources, and fixed technology.



(b) 4.5 rockets; .33 automobiles, as determined from the table. Increasing opportunity costs are reflected in the concave-from-the-origin shape of the curve. This means the economy must give up larger and larger amounts of rockets to get constant added amounts of automobiles—and vice versa.

(c) It must obtain full employment and productive efficiency.

1-3

See the graph for question 2-6. PPC_1 shows improved rocket technology. PPC_2 shows improved auto technology. PPC_3 shows improved technology in producing both products.

QUESTION 2 HAS THREE PARTS: 16 MARKS

Q 3. How will each of the following changes in demand and/or supply affect equilibrium price and equilibrium quantity in a competitive market; that is do price and quantity rise, fall, remain unchanged, or are the answers indeterminate, depending on the magnitudes of the shifts in supply and demand? You MUST DRAW supply and demand diagrams to verify answers that price and quantity demanded and supplied go up, down or are indeterminate. **(16 marks, 4 marks each):**

a. Demand increases and supply increases.

c. Demand increases and supply decreases.

ANSWER

(a) Price indeterminate; quantity up;

(c) Price up, quantity indeterminate;

(I hope you will be able to draw the diagrams by your-self)