

**Econ 101.001
Assignment One**

Name: _____ **Student Number:** _____

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Please write your answers to the following questions directly onto this assignment, staple your pages together, and it to submit to me in on Sept. 28, 2012 at 4:00pm. No exceptions will be made for the following two rules. Failure to adhere to these rules will result in a grade of zero for all students whose names appear on the assignment:

1. No assignments will be accepted once the class has begun at 4:00.
2. A maximum of three people can work together on one assignment.

A. Indicate if the following statements are true (T), False (F) or uncertain (U) and explain your answer. Please use the space provided to illustrate your answer with a diagram.

1. Over the past thirty years the price of new cars and the number of cars owned has increased faster than has the population. This observation proves that the demand curve for new cars is upward sloping.

T F U

2. The marginal cost of producing a good increases as output increases because as each additional unit of that good is produced less productive resources are used.

T F U

3. If a 10% increase in the price of beer causes a 6% increase in the quantity of coolers demanded then beer and coolers must be complements.

T F U

4. If I am better than my roommate at cooking and we are both equally good at doing the laundry, then I should do all the cooking and my roommate should do all the laundry.

T F U

B. Indicate whether the following statements are positive or normative. If the statement is positive, rewrite it so that it is normative. If the statement is normative, rewrite it so that it is positive.

1. The government should increase the availability of birth control in order to reduce the number of women experiencing unplanned pregnancies.

2. An increase in the price of alcohol will reduce binge drinking on university campuses.

C. Answer the following questions in the space provided. Please be certain to illustrate your answers with the appropriate diagram(s).

1. Ontario and British Columbia each produce wine and beer, using a single homogenous input – labour. Their production possibilities are:

- Ontario has 50 units of labour and can produce a maximum of 100 bottles of wine or 200 bottles of beer.
- B.C. has 25 units of labour and can produce a maximum of 125 bottles of wine or 100 bottles of beer.

a) Complete the following table:

	Bottles produced with one unit of labour		Opportunity Cost of one additional bottle	
	Wine	Beer	Wine	Beer
Ontario				
B.C.				

b) Draw the PPF for each of the two provinces.

c) Which province has the absolute advantage in wine production?

d) Which province has the absolute advantage in beer production?

e) Which province has the comparative advantage in wine production?

f) Which province has the comparative advantage in beer production?

g) If trade is allowed what specialization will occur?

2. The demand for yolos is

$$P = 8 - 1Q_D$$

The supply of yolos is

$$P = 2 + 1Q_S$$

Where P is the price of a yolo in dollars, Q_D is the quantity of yolos demanded, and Q_S is the quantity of yolos supplied. The yolo market is initially in equilibrium and income is \$300.

a) What is the equilibrium quantity (Q^*) of yolos? (Please show all of your work)

b) What is the equilibrium price (P^*) of a yolo? (Please show all of your work)

c) As the result of an increase in income to \$500 there is a new demand equation:

$$P = 4 - 1Q_D$$

At the equilibrium price determined in part b) is there an *excess demand* or *excess supply* for yolos?

d) After the price has adjusted, what is the new equilibrium quantity and equilibrium price of a yolo?

e) In the space below draw the supply curve, the original demand curve and the new demand curve. Be certain to label your axis, your curves and the specific equilibrium prices and quantities found the problems above.

f) Using the graph you drew above, are yolos a normal or inferior good? How can you tell?

g) Please calculate the relevant elasticity you would use to prove your answer to the question posed in f).

3. Using the same diagrams used in your textbook in Figure 2.4 explain what would happen to marginal benefit and marginal cost in the following instances.

a) A new pizza oven is invented that shortens the length of time pizzas need to be baked.

b) Individual households decide that they would like to consume more pizzas.

c) A serious flu epidemic keeps half of all workers home.