

ASSIGNMENT 2

Principles of Economics EC 110-001
June 14, 2007

Name: _____

by writing my name i swear by the honor code

Read all of the following information before starting the Assignment:

- You are not allowed to share your work with other students in the class. This is an individual assignment.
- Show all work, clearly and in order, if you want to get full credit. I reserve the right to take off points if I cannot see how you arrived at your answer (even if your final answer is correct).
- Justify your answers algebraically whenever possible to ensure full credit. When you do use your calculator, sketch all relevant graphs and explain all relevant mathematics.
- Circle or otherwise indicate your final answers.
- Please keep your written answers brief; be clear and to the point. I will take points off for rambling and for incorrect or irrelevant statements.
- This assignment has 5 problems and is worth 100 points. It is your responsibility to make sure that you have all of the answers!
- This assignment is due Tuesday, June 19 in class.
- Good luck!

1. (*20 points*) PROBLEM 1: This question has 5 parts:

a. (*4 pts*) PART A: The fifth chapter discusses the determinants of price elasticity of demand. List them and briefly indicate how they can influence the price elasticity of demand.

b. (*4 pts*) PART B: Briefly summarize the discussion in chapter 5 regarding the income elasticity of demand. In your discussion, use some examples of your own.

c. (*4 pts*) PART C: Briefly summarize the discussion in chapter 5 regarding the cross-price elasticity of demand. In your discussion, use some examples of your own.

d. (4 pts) PART D: Explain why economists usually oppose controls on prices.

e. (4 pts) PART E: What determines how the burden of a tax is divided between buyers and sellers? Why?

2. (20 points) PROBLEM 2: Azamat Bagatov's demand for potassium is given in the following table:

	A	B	C	D	E	F	G	H
<i>Price</i>	0	12	18	24	30	36	48	60
<i>Quantity Demanded</i>	30	24	21	18	15	12	6	0

a. (5 pts) PART A: Find the price that corresponds to the maximum value of total revenue. Show all your work.

b. (5 pts) PART B: Find the prices between which demand is unit elastic. Show all your work (Hint: Ignore point E from your computations at this part).

c. (5 pts) PART C: Using the midpoint method, find Bagatov's price elasticity of demand between prices of \$12 and \$18. How is his demand curve between these prices?

d. (5 pts) PART C: Using the midpoint method, find Bagatov's price elasticity of demand between prices of \$48 and \$60. How is his demand curve between these prices?

3. (20 points) PROBLEM 3: To solve this problem use the information given in the following table:

Income	Quantity of Vermouth Purchased (thousands)	Quantity of Russian Vodka Purchased (thousands)
\$30,000	2	20
\$40,000	6	10

a. (10 pts) PART A: Using the midpoint method, find the income elasticity of demand for vermouth. What kind of good is it?

b. (10 pts) PART B: Using the midpoint method, find the income elasticity of demand for Russian vodka. What kind of good is it?

4. (20 points) PROBLEM 4: You're given the following information:

	Supply Curve A		Supply Curve B		Supply Curve C	
<i>Price</i>	\$1.00	\$2.00	\$1.00	\$3.00	\$2.00	\$5.00
<i>Quantity Supplied</i>	500	600	600	900	400	700

a. (10 pts) PART A: Show which of the three supply curves represents the least elastic supply.

b. (5 pts) PART B: Show which of the three supply curves represents the most elastic supply.

c. (5 pts) PART C: Along which of the supply curves does quantity move proportionately more than the price? Justify your answer.

5. (20 points) PROBLEM 5: Market research has found the following supply and demand schedules for the market of GAP shirts:

	A	B	C	D	E
<i>Price(\$)</i>	4.00	5.00	6.00	7.00	8.00
Q^D	70	60	50	40	30
Q^S	30	40	50	60	70

a. (10 pts) PART A: Approximately draw the supply and demand curves. What happens when the government imposes a price ceiling of \$5.00?

b. (10 pts) PART B: Suppose a price floor of \$7.00 is imposed. How is buyers' total expenditure affected compared to the initial equilibrium situation? (Note: Make sure you also express the change numerically).

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