

Student: _____**Instructor:** Ufuk Tutan**Assignment:** FINAL FALL 2019**Date:** _____**Course:** BUS211 - ECON101 (Fall 2019)

1. What is the relationship between the marginal benefit, value, and demand?

Choose the correct statement.

- A. The value of one more unit of a good or service is its marginal benefit. And marginal benefit, which is the price that we pay is measured by the demand curve.
 - B. Value is equal to the marginal benefit of a good minus the price paid for it, summed over the quantity bought. Value is shown on a graph by the area under the demand curve and above the price.
 - C. The value of one more unit of a good is its marginal benefit. The demand curve is the same as the marginal benefit curve.
 - D. Marginal benefit as the maximum price that is willingly paid for another unit of the good or service, and willingness to pay determines demand. Value is the price we pay for an additional good or service, so marginal benefit often exceeds value.
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2. Why do we need a units-free measure of the responsiveness of the quantity demanded of a good or service to a change in its price?

Because elasticity is a units-free measure of the responsiveness of the quantity demanded of a good or service to a change in its price, _____.

- A. elasticity is dependent on the units in which the variable is measured
 - B. elasticity is equal to the slope of the demand curve
 - C. we can compare the responsiveness of the same good when quantity is measured in different units, or we can compare across different goods
 - D. elasticity is equal to the negative of the slope of the demand curve
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3. E.U. Minimum Wages

Bulgaria has the lowest minimum wage in the European Union (E.U.), but its level has doubled. The minimum wage in Greece has fallen.

Source: Euronews, February 10, 2017

Assume that in both countries, the minimum wage is above the equilibrium wage.

Explain the effects of the minimum wage on the workers' surplus, the firms' surplus, and the efficiency of the market for low-skilled workers in Bulgaria and Greece.

Raising the minimum wage in Bulgaria _____ the workers' surplus and the firms' surplus and _____.

- A. decreases; makes the market for low-skilled workers less efficient
- B. increases; makes the market for low-skilled workers more efficient
- C. decreases; makes the market for low-skilled workers more efficient
- D. decreases; does not change efficiency in the market for low-skilled workers

Lowering the minimum wage in Greece _____ the workers' surplus and the firms' surplus and _____.

- A. increases; makes the market for low-skilled workers less efficient
 - B. decreases; makes the market for low-skilled workers less efficient
 - C. increases; does not change efficiency in the market for low-skilled workers
 - D. increases; makes the market for low-skilled workers more efficient
-

4. Why is the demand for a luxury generally more elastic (or less inelastic) than the demand for a necessity?

Demand for a luxury is more _____ than demand for a necessity because a luxury has _____ substitutes.

- A. inelastic; fewer
 - B. inelastic; more
 - C. elastic; fewer
 - D. elastic; more
-

5. Draw a demand curve for chicken dinners. Label it D_1 .

Suppose the cross elasticity of demand for chicken dinners with respect to the price of a beef dinner is positive.

Draw a demand curve for chicken dinners that shows the effect of a rise in the price of a beef dinner. Label it D_2 .

Chicken dinners and beef dinners are _____.

- A. substitutes
- B. complements and inferior goods
- C. inferior goods
- D. complements



>>> Draw only the objects specified in the question.

6. Sara and Zoe are the only people in an economy. The following data tells you about their purchases of soda.

Sara bought 3 bottles when the price is \$3 a bottle, 4 bottles when the price is \$2 a bottle, and 5 bottles when the price was \$1 a bottle.

Zoe bought no soda when the price was \$3 a bottle, 2 bottles when the price is \$2 a bottle, and 3 bottles when the price was \$1 a bottle.

In the market for soda, the quantity demanded _____.

- A. is 6 bottles at \$2 a bottle
- B. is 4 bottles at \$2 a bottle
- C. is 5 bottles at \$3 a bottle
- D. is 5 bottles at \$1 a bottle

7. How does the elasticity of supply influence the incidence of a tax, the quantity bought, the tax revenue, and the deadweight loss?

The greater the elasticity of supply, the _____ is the amount of the tax paid by sellers and the _____ the decrease in the quantity bought.

- A. smaller; greater
- B. greater; greater
- C. smaller; smaller
- D. greater; smaller

The greater the elasticity of supply, the _____ the tax revenue and the _____ is the deadweight loss.

- A. greater; smaller
 - B. smaller; greater
 - C. smaller; smaller
 - D. greater; greater
-

8. When Yara's income decreased from LBP (Lebanese pound) 100,000 to LBP 65,000 a week, she increased her demand for falafel sandwiches by 15 percent and decreased her demand for new clothes by 20 percent.

Calculate Yara's income elasticity of demand for falafel sandwiches and new clothes. Comment on the nature of both items.

>>> Answer to 2 decimal places.

>>> If your answer is negative, include a minus sign. If your answer is positive, do not include a plus sign.

Yara's income elasticity of demand for falafel sandwiches is _____.

Yara's income elasticity of demand for new clothes is _____.

Falafel sandwiches are (1) _____ good, and new clothes are (2) _____ good.

- (1) an inferior (2) an inferior
 - a normal a normal
-

9. The table gives the demand schedules for private ballet lessons for the only buyers in the market, Destiny, Rosemary, and Emily.

Construct the market demand schedule for private ballet lessons. Fill in the right column of the table.

What is the maximum price that each student is willing to pay to have 30 hours of private lessons? Why?

The maximum price that Destiny is willing to pay to have 30 hours of private lessons is £ _____ per hour.

The maximum price that Rosemary is willing to pay to have 30 hours of private lessons is £ _____ per hour.

The maximum price that Emily is willing to pay to have 30 hours of private lessons is £ _____ per hour.

To have 30 hours of private lessons, each student is willing to pay _____.

- A. an amount per hour equal to the marginal benefit from the last hour of private lessons taken
- B. whatever it takes to complete their ballet training
- C. the price set by the owner
- D. an amount per hour equal to the consumer surplus on each hour

Price (£ per hour)	Quantity demanded (hours)			Market
	Destiny	Rosemary	Emily	
1	60	35	30	_____
2	50	30	25	_____
3	40	25	20	_____
4	30	20	15	_____

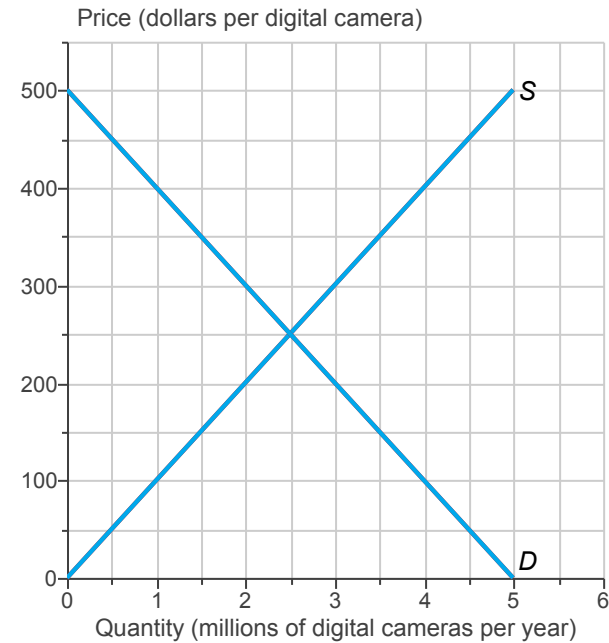
10. The graph shows the market for digital cameras.

Suppose 4 million digital cameras a year are being produced.

Draw a shape that shows the deadweight loss on digital cameras.

Deadweight loss _____.

- A. is the decrease in producer surplus that results from a decrease in price when demand decreases
- B. occurs only when production is greater than the efficient quantity
- C. occurs in markets that produce at the competitive equilibrium and in markets that produce more than the quantity at the competitive equilibrium
- D. is the decrease in total surplus that results from an inefficient level of production



>>> Draw only the objects specified in the question.

11. Which method is used to allocate rooms in Florida during spring break?

- A. command
- B. contest
- C. majority rule
- D. market price

12. The figure shows the demand for pens.

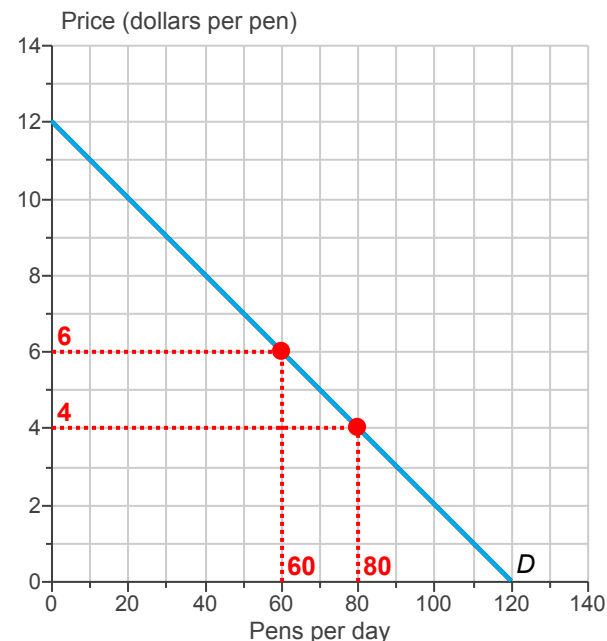
Calculate the elasticity of demand when the price rises from \$4 to \$6 a pen. Over what price range is the demand for pens elastic?

The elasticity of demand when the price rises from \$4 to \$6 a pen is _____.

>>> Answer to 2 decimal places.

The demand for pens is elastic at _____.

- A. a price of \$6 a pen
- B. all prices greater than \$6 a pen
- C. all prices less than \$6 a pen
- D. all prices less than \$4 a pen



13. What is the relationship between individual supply and market supply?

The market supply curve is the _____ sum of the individual supply curves. It is formed by adding _____.

- A. horizontal; the marginal cost of all producers at each quantity
- B. vertical; the marginal cost of all producers at each quantity
- C. vertical; the quantities supplied by all the producers at each price
- D. horizontal; the quantities supplied by all the producers at each price

Price (dollars per panini)	Quantity supplied (paninis per week)		
	Sarah	Kirk	Jean
5.00	2	1	0
7.50	4	2	1
10.00	6	3	2

Sarah, Kirk, and Jean are the only producers of panini sandwiches in an isolated village. The table shows their weekly supply of paninis.

When the price of a panini is \$7.50, what is the quantity of paninis supplied by the market in a week?

The quantity supplied by the market is _____ paninis a week.

14. Rain spoils the strawberry crop, the price of strawberries rises from \$2 to \$4 a box, and the quantity demanded decreases from 1,400 to 1,000 boxes a week.

Calculate the price elasticity of demand over this price range. Describe the demand for strawberries.

Over the price range of \$2 to \$4, the price elasticity of demand is _____.

>>> Answer to 2 decimal places.

Over this price range, the demand for strawberries is _____.

- A. elastic
- B. inelastic
- C. unit elastic
-

15. Which of the following is an example of **price elasticity of demand**?

- A. When the price of bananas increased by 5 percent and incomes slumped, banana sales decreased by 5 percent.
- B. Banana farmers enjoyed higher prices when the demand for bananas increased.
- C. When the price of bananas increased by 5 percent and nothing else changed, the quantity of bananas demanded decreased by 2 percent.
- D. Richer people buy fewer bananas than poorer people.
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16. Why does a rent ceiling create an inefficient and unfair outcome in the housing market?
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An effective rent ceiling creates an inefficient outcome because at the rent ceiling _____.

- A. marginal social cost exceeds marginal social benefit
- B. marginal social cost is maximized
- C. marginal social benefit exceeds marginal social cost
- D. marginal social benefit equals zero

An effective rent ceiling is _____ by the fair results view and _____ by the fair rules view.

- A. unfair; fair
- B. fair; fair
- C. fair; unfair
- D. unfair; unfair
-

17. **Total surplus** is the sum of _____ and _____.

- A. marginal revenue; marginal benefit
- B. marginal benefit; marginal cost
- C. consumer surplus; producer surplus
- D. total revenue; total cost

Market failure is a situation in which the market _____.

- A. breaks down so that nothing gets produced
- B. delivers an unfair outcome
- C. price fluctuates
- D. delivers an inefficient outcome

Deadweight loss is the decrease in _____ that results from an inefficient _____ or _____.

- A. total surplus; underproduction; overproduction
- B. producer surplus; overproduction; subsidy
- C. total surplus; market price; marginal cost
- D. consumer surplus; underproduction; tax

Which of the following statements is an example of **transaction costs**?

- A. A hike in taxes results in underproduction.
- B. I paid a commission to the real estate broker when I bought my house.
- C. Microsoft's profit dropped by 5 percent last quarter.
- D. An increase in wages has increased labor costs in China.

18. If the quantity demanded of peanuts increases by 20 percent when the price of peanuts falls by 50 percent, what is the price elasticity of demand for peanuts?

The price elasticity of demand for peanuts is _____.

>>> Answer to 2 decimal places.

1. C. The value of one more unit of a good is its marginal benefit. The demand curve is the same as the marginal benefit curve.

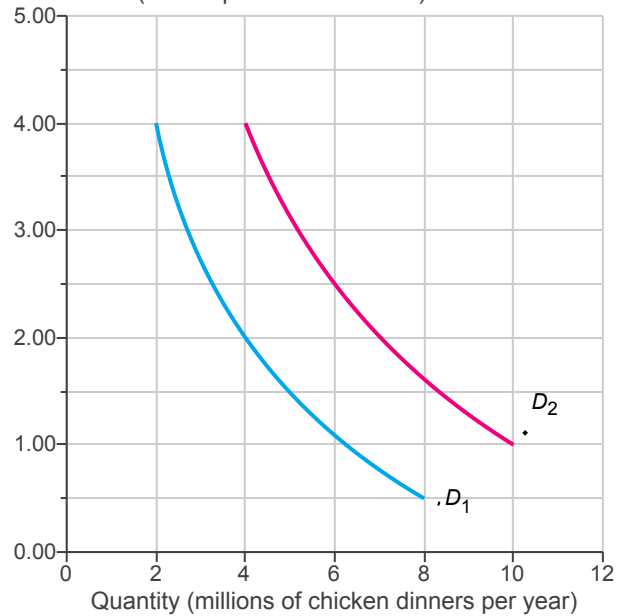
2. C. we can compare the responsiveness of the same good when quantity is measured in different units, or we can compare across different goods

3. A. decreases; makes the market for low-skilled workers less efficient

D. increases; makes the market for low-skilled workers more efficient

4. D. elastic; more

5. Price (dollars per chicken dinner)



A. substitutes

6. A. is 6 bottles at \$2 a bottle

7. A. smaller; greater

B. smaller; greater

8. -0.35

0.47

(1) an inferior

(2) a normal

9. 125

105

85

65

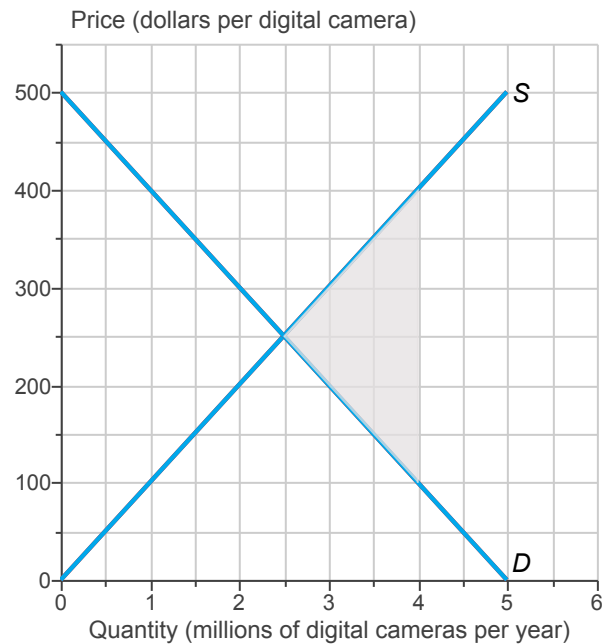
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1

A. an amount per hour equal to the marginal benefit from the last hour of private lessons taken

10.



D. is the decrease in total surplus that results from an inefficient level of production

11. D. market price

12. 0.72

B. all prices greater than \$6 a pen

13. D. horizontal; the quantities supplied by all the producers at each price

7

14. 0.5

B. inelastic

15. C. When the price of bananas increased by 5 percent and nothing else changed, the quantity of bananas demanded decreased by 2 percent.

16. C. marginal social benefit exceeds marginal social cost

D. unfair; unfair

17. C. consumer surplus; producer surplus

D. delivers an inefficient outcome

A. total surplus; underproduction; overproduction

B. I paid a commission to the real estate broker when I bought my house.

18. 0.40
