

Student: _____
Date: _____
Time: _____

Instructor: Nisha Malhotra
Course: Microeconomics - 2011
Book: Parkin, Microeconomics: Canada in the
Global Environment, Seventh Edition

Assignment: MT2 W12011

1. Use the table below to answer the following question.

Table 6.4.1

Price (dollars per box)	Quantity Demanded(boxes per week)	Quantity Supplied(boxes per week)
1.00	3,500	500
1.10	3,250	1,000
1.20	3,000	1,500
1.30	2,750	2,000
1.40	2,500	2,500
1.50	2,250	3,000
1.60	2,000	3,500

Refer to Table 6.4.1. The table shows the demand and supply schedules for rice. The market for rice is in equilibrium. With a subsidy of \$0.30 a box, the price of a box of rice is _____, the marginal cost of producing rice is _____ a box, and the quantity of rice produced is _____ boxes.

- A. \$1.20; \$1.50; 2,500
- B. \$1.40; \$1.40; 2,500
- C. \$1.20; \$1.50; 3,000
- D. \$1.50; \$1.20; 3,000
- E. \$1.50; \$1.20; 2,500

2. Sue's Surfboards rents the factory building in which it produces surfboards.

The rent is increased by \$200 a week.

If other things remain the same, the average fixed cost curve _____, the average variable cost curve _____, the average total cost curve _____, and the marginal cost curve _____.

- A. shifts upward; does not change; shifts upward; shifts upward
- B. does not change; shifts upward; shifts upward; shifts upward
- C. shifts upward; does not change; shifts upward; does not change
- D. shifts upward; does not change; does not change; shifts upward

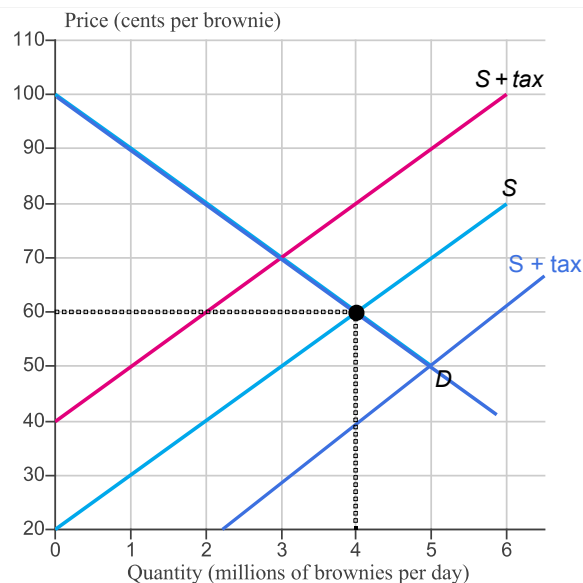
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3. An increase in income _____.
- A. decreases the slope of the budget line and shifts the demand curve rightward
 - B. shifts the budget line rightward and shifts the demand curve rightward
 - C. shifts the budget line rightward and creates a movement downward along the demand curve
 - D. decreases the slope of the budget line and creates a movement upward along the demand curve

4. The graph shows the demand curve and supply curve for chocolate brownies.
- A 20 cent tax is imposed on brownies sellers.
The supply curve shifts _____ (Up;Down) by 20 cents.
- Calculate the Tax burden for consumers and producers
- Tax burden on Consumers _____ cents
Tax burden on Producers _____ cents
- Calculate the tax revenue and deadweight loss
- The government's tax revenue is \$ _____ million.
The deadweight loss is \$ _____ million.



5. A constant marginal rate of substitution between two goods implies
- A. the goods are imperfect substitutes.
 - B. the goods are perfect substitutes.
 - C. the goods are both inferior.
 - D. one good is normal and one good is inferior.
 - E. the goods are perfect complements.

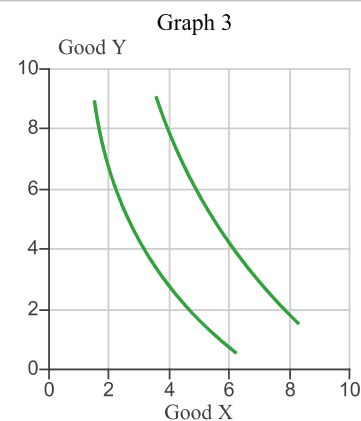
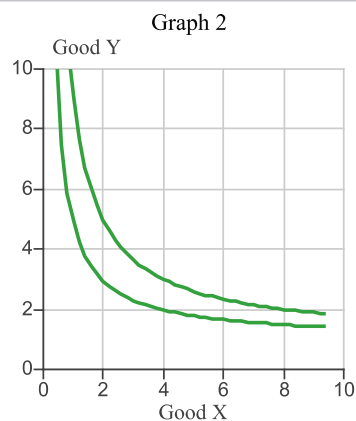
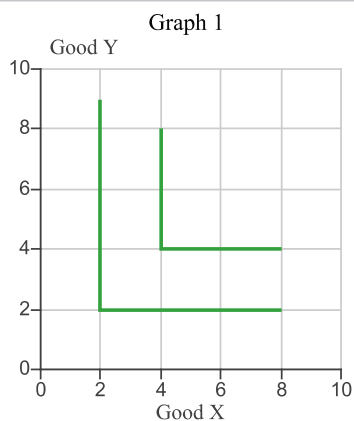
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6. The graphs below show indifference curves for various goods. Graph _____ best describes the pair of goods Coca-Cola and Pepsi. Graph _____ best describes the pair of goods skis and ski poles. The marginal rate of substitution along the indifference curves in _____ decreases at a slower rate than in _____ as we increase consumption of the good measured on the x -axis and decrease consumption of the good measured on the y -axis.

- A. 2; 1; graph 1; graph 3
 B. 2; 2; graph 3; graphs 1 and 2
 C. 3; 1; graph 3; graphs 1 and 2
 D. 3; 2; graph 1; graph 3



7. Which one of the following statements describes a market that is monopolistically competitive?

- A. There is a small number of large firms.
 B. Many firms compete by making similar but slightly different products.
 C. The product produced by one firm has no close substitutes.
 D. The products produced by the firms are identical.
 E. The presence of significant barriers to entry.

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8. Read the news clip, then answer the following questions.

A technological advance that makes an airplane engine more fuel efficient _____ an airline's average variable cost and _____ an airline's marginal cost.

- A. does not change; decreases
- B. decreases; decreases
- C. increases; increases
- D. decreases; does not change

The airplane engines that are more fuel efficient cost more than the previous engines.

At lower levels of output, average total cost _____.

At higher levels of output, average total cost _____.

- A. decreases; increases
- B. decreases; decreases
- C. increases; decreases
- D. increases; increases

Airlines Seek Out New Ways to Save on Fuel as Costs Soar

The financial pain of higher fuel prices is particularly acute for airlines because it is their single biggest expense. ... [Airlines] pump about 7,000 gallons into a Boeing 737 and as much as 60,000 gallons into the bigger 747 jet. ... Each generation of aircraft is more efficient. At Northwest, the Airbus A330 long-range jets use 38 percent less fuel than the DC-10s they replaced, while the Airbus A319 medium-range planes are 27 percent more efficient than DC-9s. ...

The New York Times, June 11, 2008

9. The smallest quantity of output at which long-run average cost is at a minimum is a firm's _____.

- A. minimum efficient scale
- B. profit-maximizing output point
- C. efficient output point
- D. maximum efficient scale

In a market in which the smallest output at which long-run average cost reaches its lowest level is large relative to market demand, the market is _____.

- A. perfectly competitive
- B. either an oligopoly or monopoly
- C. experiencing growth
- D. monopolistically competitive

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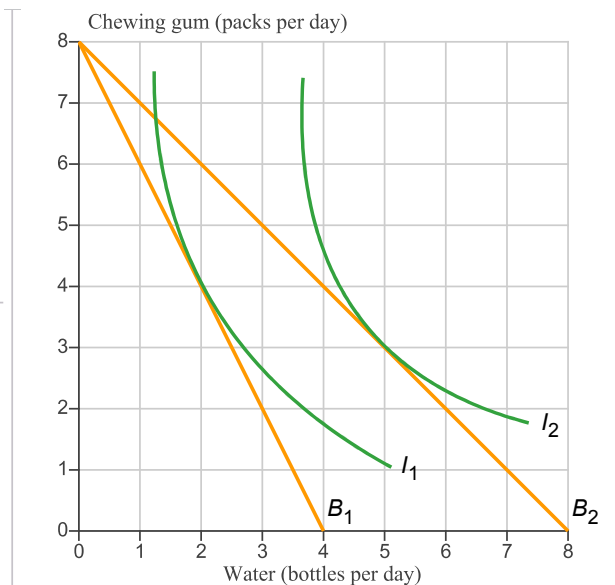
10. The figure shows two of Marg's indifference curves.

The price of chewing gum is \$0.50 a pack.

When the price of a bottle of water is \$1.00, Marg's quantity demanded of water is _____ bottles a day.

When the price of a bottle of water is \$0.50, her quantity demanded of water is _____ bottles a day.

- A. 5; 2
- B. 3; 4
- C. 2; 5
- D. 4; 3

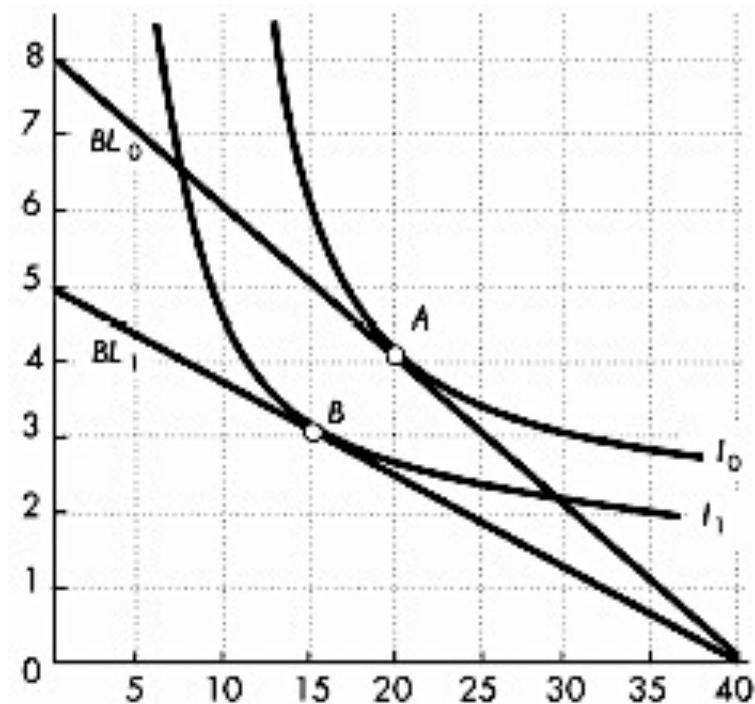


11. When an effective subsidy is applied in the market for potatoes, the equilibrium quantity _____ and the price _____.

Marginal social cost _____ marginal social benefit.

- A. increases; falls; exceeds
- B. decreases; falls; exceeds
- C. decreases; rises; is less than
- D. increases; rises; is less than

Question 12: The provincial sales tax is a tax on goods. Some people say that the GST, a tax on both goods and services, is a better tax. The following graph illustrates what would happen, if all provincial sales taxes were replaced with the provincial GST, for a consumer choosing Books and Haircuts (service). Here I_0 and I_1 are the Indifference curves of the two products; BL are the budget lines.



- Label the x axis and y axis on the above graph.
- BL_0 represents the budget line for _____ (GST or Provincial tax)
- How did the consumer choice of goods change with change in the tax structure?
 - Consumption choice with Provincial Tax: haircut _____ and books _____
 - Consumption choice with GST: haircut _____ and books _____
- In the above graph show the substitution and Income effect as a result of a change in relative prices. Explain how the consumption changed as a result of substitution effect and the income effect.

Question 13. Explain and illustrate graphically how a growth in the world population has influenced the world market for wheat **and** a representative individual wheat farmer, in the short as well as the long run. (You need 2 graphs one for the market and one for the farmer/firm). Assume that the Wheat market is perfectly competitive.

Asnwer

FIGURE 12.3a
Problem 9

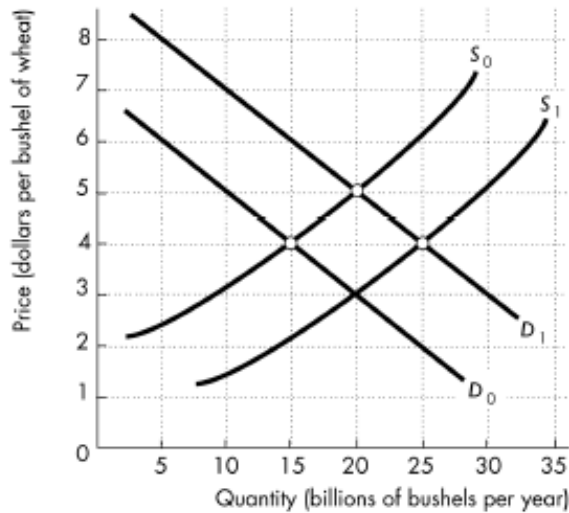
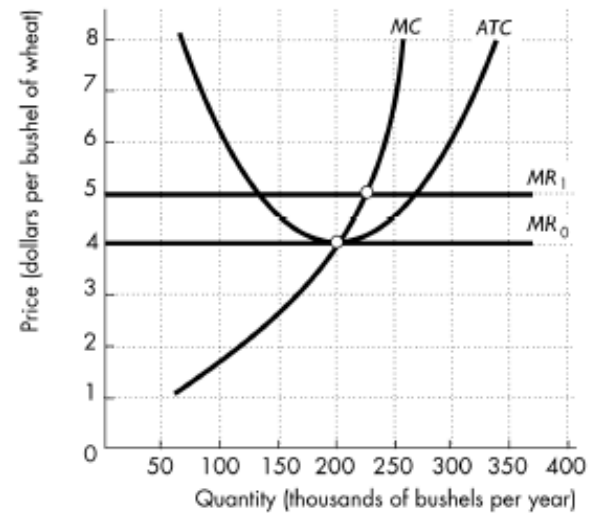


FIGURE 12.3b
Problem 9



The increase in the world population increases the market demand for wheat. The price of wheat rises so that wheat farmers increase the quantity of wheat they produce and make an economic profit. The economic profit attracts entry by new farmers, which increases supply, lowers the price, and eliminates economic profit. Figure 12.3a and 12.3b illustrate this process. In Figure 12.3a the market demand increases and the market demand curve shifts rightward from D_0 to D_1 . Initially the supply curve remains S_0 . The increase in demand raises the price of a bushel of wheat to \$5 and increases the quantity to 20 billion bushels. In Figure 12.3b the higher price raises the firm's marginal revenue and the marginal revenue curve shifts upward from MR_0 to MR_1 . The firm responds by increasing the quantity it produces from 200,000 bushels to 225,000 bushels. It makes an economic profit because the price exceeds its average total cost. The economic profit attracts entry by new firms. Entry increases the market supply and shifts the supply curve rightward, in Figure 12.3a, from S_0 to S_1 . Assuming the industry has neither external economies nor external diseconomies, entry takes place until the price falls back to the initial price, \$4 a bushel. The market equilibrium quantity increases to 25 billion bushels. Figure 12.3b shows that at this lower price each firm decreases the quantity it produces back to its original amount, 200,000 bushels. The firms now make zero profit and there is no longer an incentive for new firms to enter the market.

The relative price of books and haircuts.

Books are goods and so are taxed under both a sales tax and GST. Haircuts are services and so are taxed only under GST. If the provincial sales tax were replaced with GST, the relative price of a haircut rises and the relative price of a book falls.

The budget line showing the quantities of books and haircuts you can afford to buy.

Assuming the sales tax and GST are the same rate, in the figure the budget line rotates inward around a fixed book intercept. In Figure 9.20, the new budget line is BL_1 . The price of a book does not change, but the price of a haircut rises.

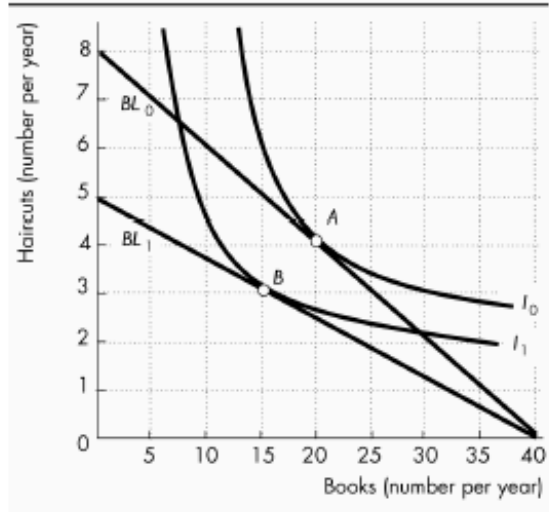
Your purchases of books and haircuts.

In general, if the relative price of a haircut rises and the relative price of a book falls, the substitution effect leads consumers to buy more books and fewer haircuts. There is, however, also an income effect. The consumer's real income falls, which decreases the demand for normal goods. Assuming that both books and haircuts are normal goods, then the income effect offsets the substitution effect of buying more books but reinforces the substitution effect of buying fewer haircuts. In Figure 9.20, with the sales tax and budget line BL_0 the consumer is initially at point A and buys

20 books a year and 4 haircuts a year. With the GST and budget line BL_1 the consumer moves to point B and buys 15 books a year and 3 haircuts a year.

FIGURE 9.16

Problem 18



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1. C

2. C

3. B

4.

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5. B

6. C

7. B

8. B
C

9. A
B

10. C

11. A