Last Name (1):\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ First Name (1):\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Last Name (2):\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ First Name (2):\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Last Name (3):\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ First Name (3):\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Last Name (4):\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ First Name (4):\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Microeconomics Homework Part 1 (of 3)

Principles of Economics with Dr. Beck

Module 6

Due Jan 5th at 9:00

This part of the assignment will cover Sessions 1-2 and be worth 33 of the 100 points attached to the Microecon assignment. The value of each question is clearly marked. You may work in groups of up to four if you wish but this is not required. You may pick your own groups for this (you do not have to work with the same people in your Learning Cafes/Current Events Assignment). If you work together, please only submit the homework to MyCourses once (i.e. please don’t have each person submit separately).

Please put your answers in **bold** (or get a one point deduction) and write your full “MyCourses” name above (as we discussed in class, I am perfectly happy to call you whatever you like but I need to be able to easily match your score to what is written in MyCourses.)

*4 points*

1) Assume Sarah’s utility can be represented by the function:

Utility= 2x1/2

Where x equals the number of milkshakes consumed.

Furthermore, assume one unit of utility is equivalent to one dollar (i.e. 5 units of utility would give her $5 worth of benefit/happiness).

Assume milkshakes cost $0.75 each.

i) Does this utility function represent diminishing marginal utility? (1 point)

ii) Using marginal analysis, how many milkshakes would Jacilyn purchase and consume to maximize her utility? Explain. (3 points)

*2 points*

2) In the blank provided, mark each of the following statements with an “N” if the statement is normative or a “P” if the statement is positive. (0.5 points each)

"Today, adjusted for inflation, the price of gasoline is about the same as it was in 1970."\_\_\_\_\_

“Healthcare represents a growing share of the Finnish economy.”\_\_\_\_\_

“Every Finnish citizen deserves access to healthcare.”\_\_\_\_\_

“Funding higher education should be a country’s top priority.”\_\_\_\_\_

*5 points*

3) Consider the following statement and tell me if you agree or disagree. Use concepts and terminology from this class to defend your point of view. Limit your reply to less than 60 words.

*“The optimal amount of pollution is none at all!”*

*4 points*

4) Do you think it would be a good idea for a country like Finland, with its many highly trained workers and high level of modern capital, to specialize in producing t-shirts? Explain. Limit your reply to < 60 words.

*6 points*

5) Frodo and Sam both like mushrooms and pints of ale. Frodo can produce either 8 mushrooms or 16 pints of ale per day. Sam can produce 20 mushrooms per day or 10 pints of ale per day. Assume constant opportunity cost.

Suppose, before considering specialization and trade, Frodo produces and consumes 4 mushrooms and 8 pints, and Sam produces and consumes 10 mushrooms and 5 pints. Could they be made better off if they specialized and traded? If so, who should specialize in what, and why? Explain your reasoning and be specific.

*2 points*

6) Assume that demand and supply in the market for luxury dog shampoo can be represented by the following equations:

Qd= 12.5 – 0.25P

Qs = -8.5 + 0.5P

Calculate equilibrium price and quantity. (1 point each)

P=\_\_\_\_\_\_

Q=\_\_\_\_\_

*2 points*

7) Explain the difference between “change in demand” and “change in quantity demanded”.

*8 points*

8) Consider the market for hotel rooms in Savannah, Georgia and evaluate each of the following scenarios. For each scenario, say the effect on the supply and demand model (for instance: “supply shifts to the left,” “demand shift to the right,” etc) and say if price and quantity will increase or decrease (2 points each).

a) American consumers decide that traveling to Europe is much more sophisticated than traveling within the US.

Effect on model:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Predicted effect on equilibrium price:\_\_\_\_\_\_\_\_\_\_\_\_\_

Predicted effect on equilibrium quantity:\_\_\_\_\_\_\_\_\_\_\_\_\_

b) Domestic airfare prices increase in the US (consider a plane ticket and a hotel room as compliments).

Effect on model:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Predicted effect on equilibrium price:\_\_\_\_\_\_\_\_\_\_\_\_\_

Predicted effect on equilibrium quantity:\_\_\_\_\_\_\_\_\_\_\_\_\_

c) Hotel workers form a labor union and are able to negotiate higher pay.

 Effect on model:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Predicted effect on equilibrium price:\_\_\_\_\_\_\_\_\_\_\_\_\_

Predicted effect on equilibrium quantity:\_\_\_\_\_\_\_\_\_\_\_\_\_

d) A hurricane inflicts significant damage to Charleston, South Carolina, closing many hotels in Charleston. (Charleston is nearby and similar to Savannah thus making it Savannah’s largest competitor for tourism.)

Effect on model:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Predicted effect on equilibrium price:\_\_\_\_\_\_\_\_\_\_\_\_\_

Predicted effect on equilibrium quantity:\_\_\_\_\_\_\_\_\_\_\_\_\_