

**Assignment #2**  
Economics 101 – Section 5  
Due Date: Thursday February 5, 2004

Instructions: Complete all questions and sub questions on separate sheets of paper. Make sure to include your name (first and last) and your student number on the first page of your assignment. Staple all sheets together and turn in to my office by the due date.

#1) The table below represents some hypothetical data for quantities supplied and demanded for studio apartments in Berkeley CA

<b>Monthly rent (1,000's)</b>	<b>Quantity Demanded</b>	<b>Quantity Supplied</b>
\$ 800.00	30	10
\$ 1,000.00	25	14
\$ 1,200.00	22	17
\$ 1,400.00	19	19
\$ 1,600.00	17	21
\$ 1,800.00	15	22

- a) Graph the demand and supply curves
- b) Using the graph, find the equilibrium price and quantity
- c) Why would we never see equilibrium rent of \$800 in this market? Explain using the concepts of excess supply or demand, which ever is appropriate.
- d) CA governor Schwarzenegger decides to bulldoze all the rent controlled apartments to cut government costs. How will this affect the equilibrium prices and quantities? Explain using your graph.

#2) The following are some hypothetical data for the quantity of gas demanded and supplied in Iowa per month.

<b>Price per Gallon</b>	<b>Quantity Demanded</b>	<b>Quantity Supplied</b>
\$ 1.20	170	80
\$ 1.30	156	105
\$ 1.40	140	140
\$ 1.50	123	175
\$ 1.60	100	210
\$ 1.70	95	238

- a) Looking at the table, what is the relationship between price and quantity demanded?
- b) Looking at the table, what is the relationship between price and quantity supplied?
- c) Graph the demand and supply curves.
- d) What is the equilibrium price and quantity?
- e) Using your graph, how does a rise in the price of automobiles affect the gasoline market?

#3) Draw supply and demand diagrams for two markets and label them A and B. Use diagrams to indicate how each of the following will impact prices and quantities in each market:

- a) A and B are substitutes, and producers expect the price of A to rise in the future.
- b) A and B satisfy the same kinds of desires (like tea and coffee), and there is a shift in tastes away from A and towards B.
- c) A is a normal good, while B is an inferior good. Incomes of all consumers in this market rise.
- d) A and B are complements. There is a technological advance in the production of good B.

#4) Suppose that the costs of production of winter hats and wheat in Russia and the US are as follows:

	Per Winter Hat	Per Bushel of Wheat
US	\$10	\$1
Russia	5,000 rubles	2,500 rubles

- a) What is the opportunity cost of producing one more winter hat in the US? In Russia?
- b) What is the opportunity cost of producing one more bushel of wheat in the US? In Russia?
- c) Which country has a comparative advantage in winter hats? In wheat?
- d) If the US decides to produce one less winter hat and Russia decides to produce one more winter hat, what should happen to wheat production? Show that you understand by filling in the following table. What are the gains from specialization here?

	Winter Hat Production	Wheat Production (in Bushels)
United States	-1	
Russia	+1	
World	0	

- e) If the exchange rate were 1,000 rubles/\$US, would mutually beneficial trade occur? If yes explain. If no, then which direction would the exchange rate move?
- f) If the exchange rate were 100 rubles/\$US, would mutually beneficial trade occur? If yes explain. If no, then which direction would the exchange rate move?

#5) The following is information about the supply and demand for beef in Paraguay and Uruguay. If trade occurs assume a zero transportation cost.

Price	Paraguay		Price	Uruguay	
	Quantity Supplied	Quantity Demanded		Quantity Supplied	Quantity Demanded
0	0	1200	0	0	1800
5	200	1000	5	0	1600
10	400	800	10	0	1400
15	600	600	15	0	1200
20	800	400	20	200	1000
25	1000	200	25	400	800
30	1200	0	30	600	600
35	1400	0	35	800	400
40	1600	0	40	1000	200
45	1800	0	45	1200	0

- Draw these two figures side-by-side and to scale as in Figure #2 in Chapter 16.
- In the absence of trade, what is the equilibrium price and quantity in each of these countries?
- If the two countries begin to trade, what will happen to the price of beef? How many units of beef will be purchased in Paraguay and how many in Uruguay at this price?
- How many sides of beef will be produced in each country? What is the difference in each country between production and consumption (purchases)?
- Who benefits and who loses from the opening of trade between the two countries? Discuss producers and consumers in both countries.