Quiz # 3

1.- (25 points) Sketch (i.e., make a graph of) the demand relationship consistent with the following statements:
   a) “I would never buy a Britney Spears CD even when I could get one for nothing”.
   b) “I generally buy a bit more coffee as the price falls. But once the price falls to $2 per pound, I'll buy out the entire stock of the supermarket”. Be sure to show where the $2 price is in your graph.

2.- (25 points) Consider the market for hamburgers in your hometown. Show in a diagram the effect on the demand curve, the supply curve, the equilibrium price, and the equilibrium quantity of each of the following events:
   a) The price of tacos falls.
   b) Income increases in town and hamburgers are a normal good for most people.

3.- (20 points) This question is related to the article on the market for cocaine and its supply from South America that appeared in the magazine The Economist and that we discussed in class last week. Suppose it is known that the demand for cocaine has not change over time. How could you explain that the cocaine price has fallen over time?

4.- (30 points) Periodically, computer chip makers introduce new, more advanced chips than previous available chips. In response, two events happen. One, customers put off purchases of computers having the old chip in anticipation of machines containing the new chip. Two, Computer makers increase their production of computers containing the earlier chip in order to clear out their stocks of those chips. Draw two diagrams of the market for computers using the earlier chip: (a) one in which the equilibrium quantity falls in response to these events and (b) one in which the equilibrium quantity rises. What happens to the equilibrium price in each diagram?

5.- The following 5 multiple-choice questions are bonus questions of 2 points each one. As the maximum possible score of the test is 100, you may choose not to answer them if you believe you have gotten 100 points with questions 1 to 4. These questions were taken from the textbook’s website

i) Suppose that over time, you have observed an increase in the number of people owning digital cameras and a decrease in the price of these cameras. Which of the following would account for this?
   a) The supply has decreased and demand has remained constant.
   b) The demand has decreased and supply has remained constant.
   c) The supply has increased and demand has remained constant.
   d) The demand has increased and supply has remained constant.

ii) Federal Express and UPS are two firms that compete in providing overnight delivery services. How is the market for UPS affected by an increase in the rates charged by Federal Express?
   a) UPS will increase the supply of its services.
   b) The demand for UPS services will decrease.
   c) UPS will decrease the supply of its services.
   d) The demand for UPS services will increase.

iii) Which of the following changes would cause a decrease in the demand for DVD rentals?
   a) An increase in the supply of DVD players.
   b) A decrease in the price of DVD players.
   c) Improved technology in the manufacture of DVD players.
   d) A decrease in the price of movie admissions.

iv) If housekeeping services are a normal good, then an increase in income will
   a) increase the supply of housekeeping services.
   b) increase the demand for housekeeping services.
   c) decrease the supply of housekeeping services.
   d) decrease the demand for housekeeping services.

v) The equilibrium price of a good is the price
   a) that consumers prefer.
   b) there is no opportunity cost associated with producing the good.
   c) that producers prefer.
   d) at which there is no surplus and no shortage of the good.
1.- (25 points) Sketch (i.e., make a graph of) the demand relationship consistent with the following statements:
   a) “I would never buy a Britney Spears CD even when I could get one for nothing”.
   b) “I generally buy a bit more coffee as the price falls. But once the price falls to $3 per pound, I’ll buy out the entire
      stock of the supermarket”. Be sure to show where the $3 price is in your graph.

2.- (25 points) Consider the market for hamburgers in your hometown. Show in a diagram the effect on the demand curve, the
   supply curve, the equilibrium price, and the equilibrium quantity of each of the following events:
   a) The price of tacos increases.
   b) Income increases in town and hamburgers are an inferior good for most people.

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   in the magazine The Economist and that we discussed in class last week. Suppose it is known that the demand for cocaine has not change over time. How could you explain that the cocaine price has fallen over time?

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