

ECC1000: PRINCIPLES OF MICROECONOMICS

Questions for Tutorial Week 3

In addition to the following problems, it is highly recommended that you work on all the problems at the end of Chapter 4. Questions with * are more important than the rest, which will be covered during the tutorial as much as possible.

Chapter 4, Problem 2

‘An increase in the demand for notebooks raises the quantity of notebooks demanded, but not the quantity supplied.’ Is this statement true or false? Explain.

Chapter 4, Problem 4

Over the last 30 years, technological advances have reduced the cost of computer chips. How do you think this affected the market for computers? For computer software? For typewriters?

Chapter 4, Problem 5*

Using supply-and-demand diagrams, show the effect of the following events on the market for woollen jumpers:

- an outbreak of ‘foot-and-mouth’ disease hits sheep farms in New Zealand
- the price of leather jackets falls
- Rihanna appears in a woollen jumper in her latest video
- new knitting machines are invented.

Chapter 4, Problem 10*

Suppose that the price of tickets at your local picture theatre is determined by market forces. Currently, the demand and supply schedules are as follows:

Price (\$)	Quantity demanded	Quantity supplied
4	1000	800
8	800	800
12	600	800
16	400	800
20	200	800

- Draw the demand and supply curves. What is unusual about this supply curve? Why might this be true?
- What are the equilibrium price and quantity of tickets?

- c. Demographers tell you that next year there will be more film goers in the area. The additional people will have the following demand schedule:

Price (\$)	Quantity demanded
4	400
8	300
12	200
16	100

Now add the old demand schedule and the demand schedule for the new people to calculate the new demand schedule for the entire area. What will be the new equilibrium price and quantity?

Extra Question 1*

Several new studies show that eating apples prevents catching cold. Unfortunately (for apple trees), a newly discovered fungus kills 10% of the existing apple trees. Use demand and supply diagram to predict what will happen to the equilibrium price and quantity of apples.

Extra Question 2*

The demand function for two-bedroom rental apartments in the Caulfield area in 2016 is given by $Q_D = 2000 - P$ and the supply function is given by $Q_S = 500 + 2P$ where P is weekly rent in dollars.

- Find the rent and the number of apartments rented in equilibrium.
- The government thought the equilibrium rent was too high for students living in the area. Consequently the government imposes a legal maximum of \$300 on the weekly rent. What is the effect of the rent control? [We will discuss this kind of policy issues in more detail in week 4.]