

Online Homework System

Assignment Worksheet
8/28/06 - 8:50 AM

Name: _____

Class: Micro Econ

Class #: _____

Section #: _____

Instructor: Jennifer Warlick

Assignment: homework 1

Question 1: (9 points)

In each of the following situations, identify which of the following nine principles is at work:

1. Resources are scarce.
2. Opportunity cost
3. Marginal decision
4. People usually exploit opportunities to make themselves better off.
5. There are gains from trade.
6. Markets move toward equilibrium.
7. Resources should be used efficiently.
8. Markets usually lead to efficiency.
9. When markets don't achieve efficiency, government intervention can increase social welfare.

_____ a. You choose to shop at the local discount store rather than paying a higher price for the same merchandise at the local department store.

_____ b. On your spring vacation trip, your budget is limited to \$35 a day.

_____ c. The student union provides a website on which departing students can sell items such as used books, appliances, and furniture rather than giving them away to their roommates as they formerly did.

_____ d. You decide how many cups of coffee to have when studying the night before an exam by considering how much more work you can do by having another cup versus how jittery it will make you feel.

_____ e. There is limited lab space available to do the project required in Chemistry 101. The lab supervisor assigns lab time to each student based on when that student is able to come.

_____ f. You realize that you can graduate a semester early by forgoing a semester of study abroad.

_____ g. At the student union, there is a bulletin board on which people advertise used items for sale, such as bicycles. Once you have adjusted for differences in quality, all the bikes sell for about the same price.

_____ h. You are better at performing lab experiments, and your lab partner is better at writing lab reports. So the two of you agree that you will do all the experiments and she will write up all the reports.

_____ i. State governments mandate that it is illegal to drive without passing a driving exam.

Question 2: (2 points)

Liza needs to buy a textbook for the next economics class. The price at the college bookstore is \$65. One online site offers it for \$55 and another site for \$57. All prices include sales tax. The accompanying table indicates the typical shipping and handling charges for the textbook ordered online.

Shipping method	Delivery time	Charge
Standard Shipping	3–7 days	\$3.99
Second-day air	2 business days	\$8.98
Next-day air	1 business day	\$13.98

a. Which of the following represents the opportunity cost of buying the book online?

- (a) 1. the additional cost for shipping.
- (b) 2. the waiting time to receive the book.
- (c) 3. The difference between the price of the book at the store and the cost on the online site.
- (d) 4. All of the above.
- (e) 5. 1 and 2 only.

b. Below is a list of all of Liza's options and their purely monetary costs:

Buy from bookstore \$65

Buy from first site (price \$55), 1-day delivery $\$55 + \$13.98 = \$68.98$

Buy from first site (price \$55), 2-day delivery $\$55 + \$08.98 = \$63.98$

Buy from first site (price \$55), 3- to 7-day delivery $\$55 + \$03.99 = \$58.99$

Buy from second site (price \$57), 1-day delivery $\$57 + \$13.98 = \$70.98$

Buy from second site (price \$57), 2-day delivery $\$57 + \$08.98 = \$65.98$

Buy from second site (price \$57), 3- to 7-day delivery $\$57 + \$03.99 = \$60.99$

Based on the above information, complete the following statement:

For each delivery time, she is better off buying the book from the _____ where the book costs \$ _____. However, the greater the opportunity cost of her time, the more likely she is to buy the book from the _____.

Question 3: (4 points)

Use the principle of marginal analysis in answering the following questions:

a. A person will wait longer to do the laundry if the cost of having fewer clothes from which to choose is _____ than the benefit of having the time to do other things.

b. Students will do more library research before writing a term paper if the cost of not having the time to do other things is _____ than the benefit gained (in terms of an improved paper).

- c. People will eat more bags of chips if the benefit (hunger is satisfied) is _____ than the cost (additional calories).
- d. A student will decide to skip a lecture of a class if the cost (getting further behind with the material and having to cram just before the exam) is _____ than the benefit of having the time to do other things.

Question 4: (2 points)

On the east side of the Hatatoochie River lives the Hatfield family, while the McCoy family lives on the west side. Each family's diet consists of fried chicken and corn-on-the-cob, and each is self-sufficient, raising their own chickens and growing their own corn. Based on this information, indicate whether the following statements are true or false.

a. If (compared to the McCoys) the Hatfields are better at raising chickens and (compared to the Hatfields) the McCoys are better at raising corn, then both families are made better off if the Hatfields specialize in raising chickens, the McCoys specialize in raising corn, and the two families trade.

(a) True

(b) False

b. If (compared to the McCoys) the Hatfields are better at raising chickens, then both families are made better off when the McCoys specialize in raising chickens, the Hatfields specialize in raising corn, and the two families trade.

(a) True

(b) False

Question 5: (3 points)

In each of the following cases, determine whether you think the situation is *efficient* or *inefficient*.

_____ a. Electricity is included in the rent at your dorm. Some residents in your dorm leave lights, computers, and appliances on when they are not in their rooms.

_____ b. Although they cost the same amount to prepare, the cafeteria in your dorm consistently provides too many

dishes that diners don't like, such as tofu casserole, and too few dishes that diners do like, such as roast turkey with dressing.

_____ c. The enrollment for a particular course exceeds the spaces available. Some students who need to take this course to complete their major are unable to get a space while others who are taking it as an elective do get a space.

Question 6: (4 points)

Governments often adopt certain policies in order to promote desired behavior among their citizens. For each of the following policies, determine the effect of the incentives provided by the government policy.

- a. A tax of \$5 per pack is imposed on cigarettes.
 - (a) This provides an incentive for more cigarettes to be consumed.
 - (b) This provides an incentive for fewer cigarettes to be consumed.
 - (c) This will not affect the number of cigarettes consumed.

- b. The government pays parents \$100 when their child is vaccinated for measles.
 - (a) This provides an incentive for more parents to have their children vaccinated.
 - (b) This provides an incentive for fewer parents to have their children vaccinated.
 - (c) This will not affect the number of children vaccinated.

- c. The government pays college students to tutor children from low-income families.
 - (a) This provides an incentive for more children to be tutored.
 - (b) This provides an incentive for fewer children to be tutored.
 - (c) This will not affect the number of children tutored.

- d. The government imposes a tax on the amount of air pollution that a company discharges.
 - (a) This provides an incentive for more pollution.
 - (b) This provides an incentive for less pollution.
 - (c) This will not affect the amount of pollution.

