ASSIGNMENT
BA (H) ECONOMICS SEM I
INTRODUCTORY MICROECONOMICS

DATE: 13 November 2023

Instructions:

- All questions are to be solved.
- Writing must be legible.
- Only a hard copy of the assignment is accepted.
- Last date of submission: 25th November 2023
- There will be penalty for late submission.

Question 01: If the minimum wage is above the equilibrium wage in the competitive labour market, what effect will this have on employment? Show using a diagram. (5)

Question 02: Explain why we expect housing shortage to be more in the long run than in the short run if government imposes a binding rent control. (4)

Question 03: Consider the market for rubber bands.

a) If this market has very elastic supply and very inelastic demand, how would the burden of a tax on rubber bands be shared between consumers and producers? Use the tools of consumer surplus and producer surplus in your answer.
b) If this market has very inelastic supply and very elastic demand, how would the burden of a tax on rubber bands be shared between consumers and producers? Contrast your answer with your answer to part (a).

Question 04: What is the difference between a positive statement and a normative statement? Explain using examples.

Question 05: Why is the production possibility curve bowed outward? Illustrate using diagram. If a new invention increases the productivity of one good while the productivity of another good remains unchanged. Explain the changes in the PPC.

Question 06: Calculate cross price elasticity between wheat and rice using midpoint method from the following information:

Time period	1	2
Price of wheat (in Rs. Per Kg.)	20	24
Quantity of rice (in Kg.)	200	240

Question 07: What is the Deadweight loss of taxation? How does the deadweight loss change with the change in size of the tax? Give reasons.

Question 08: The market for vanilla ice cream is given by the following information:

$$Q^d = 800 - 30\ P^v + 10\ P^c$$

$$Q^s = 250 + 30\ P^v - 10\ P^m$$

where Q^d is the quantity demanded, Q^s is quantity supplied, P^v is the price of vanilla ice cream, P^c is the price of chocolate ice-cream and P^m is the price of milk.

(i) Let $P^c = 10$ and $P^m = 5$. Calculate the equilibrium price and quantity in the vanilla ice-cream market. Compare the own-price elasticity of demand and supply at equilibrium.

(ii) Calculate cross-price elasticity of demand for vanilla ice-cream. What does the sign of the elasticity tell you about the relationship between vanilla and chocolate ice-cream?

(iii) Suppose the price of milk rises to 6 per unit due to taxation in the milk market. Show the impact of this on equilibrium price and consumer welfare in the vanilla market.

Question 09: Consider a market for cloth masks. The demand curve is given by $Q^d = 100/P$ and the supply curve is given by $Q^s = 10P$. Show that if a unit tax ‘t’ per unit is imposed in the market, the sellers and buyers will share the burden of the tax equally.

Question 10: Both public goods and common resources involve externalities.

a. Are the externalities associated with public goods generally positive or negative? Use examples in your answer. Is the free-market quantity of public goods generally greater or less than the efficient quantity?

b. b. Are the externalities associated with common resources generally positive or negative? Use examples in your answer. Is the free-market use of common resources generally greater or less than the efficient use?