Youngberg

Econ 301—Bethany College

**Homework 02**

Answer all the following on a ***typed, stapled*** (if applicable)separate sheet of paper. You do not need to type equations and graphs. I charge 25 cents to staple your homework. Make sure that you justify your answers, use your own words, and show your work. All questions are equally weighted.

1. In the Soviet Union, Moscow set minimum production quotas on all kinds of products. These quotas were often difficult to fulfill due to institutional and logistical challenges. In the nail quota, for example, producers adapted by making very small nails (to save on metal) or very poor quality nails (to save on time). Illustrate the effects of a minimum production quota on nails set above equilibrium quantity. Be sure to include deadweight loss and the price consumer pay. Finally, explain why the price consumers pay is not *actually* a lower price for the consumers (or, in other words, this minimum production quota was not a good deal for consumers).
2. Suppose the demand curve is given as QD = 20 – 3P and the supply curve is given as QS = 5 + 2P. If there is a price floor of 5, find the size of the shortage or surplus (and if the control creates a shortage or surplus), the true price, the quantity supplied and demanded, and the size of the deadweight loss.
3. Why do production possibility frontiers always “bow” outward? In your explanation be sure to include the concept of comparative advantage. In a separate section, explain the intuition behind why increasing maximum production for one good on a PPF allows greater production for the other good. Include an example (hypothetical or otherwise) in your explanation.
4. Illustrate the effects of ***removing*** an existing tariff using the trade diagram. Be sure to indicate changes in government revenue from trade, and transfers to or from domestic producers and domestic inputs, changes in deadweight loss, the new market quantity, and the new market price. Which of these areas are added to consumer surplus?
5. Suppose the demand curve is given as Q = 100 – 2PD and the supply curve is given as Q = 10 + 4PS. If the government imposes a tax at 3, what is the new quantity? What is the price consumers pay and the price suppliers receive? What are the deadweight loss and the total government revenue? Who pays most of the tax? Justify your answer.