

**ASHESI UNIVERSITY  
PRINCIPLES OF ECONOMICS  
2024 SPRING SEMESTER**

**QUIZ 2**

**ANSWER ALL QUESTIONS, 20 POINTS TOTAL  
COHORT C**

**INSTRUCTOR: PRINCE BAAH**

**DURATION: 30 mins**

**12th February 2024.**

**NAME:** .....

1. Imposing a price ceiling results in a shortage in the market. This shortage is larger when demand for the good is price inelastic. True/ False **[3 marks]**
  
2. You are informed that the price elasticity of demand for a good is -0.5, what does this mean, ceteris paribus? **[3 marks]**
  
3. This year, the price of local rice is expected to rise by 2 percent while the income of buyers of local rice increases by 6 percent simultaneously. It is also estimated that the price and income elasticities of demand for local rice are  $E_p = -0.5$  and  $E_y = 0$  respectively. Based on this information, calculate the effect on the quantity of local rice expected to be purchased this year. **[4 marks]**
  
4. Suppose demand is perfectly price elastic, and supply is perfectly price inelastic. What happens to the equilibrium price when supply increases, all other things constant? **[5 marks]**  
  
Increases/decreases/remains constant (*underline the correct answer*)

5. Workers within the mango industry are agitating for a significant wage increase. The labour union representing the interest of the mango workers consults you (an economics student) for advice. Interrogating the market, you determine that the industry demand for mango workers is wage elastic. **Using the information about the labour demand only**, what will be the consequence to workers if their request for increased wages is satisfied, all other things constant? **[5 marks]**