

Indian Institute of Technology, Patna

HS201 - Micro Economics

Assignment-1

Due on: September 4, 2020

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Circle the correct answer number:

1. Which of the following will cause a shift to the left in the supply curve of diesel?
 - a. A decrease in the price of diesel.
 - b. An increase in the wage rate of refinery workers.
 - c. Decrease in the price of crude oil.
 - d. An improvement in oil refining technology.
 - e. All of the above.

2. Other things being equal, the increase in the number of rented homes that occurs after rent controls are abolished is smaller when
 - a. the own price elasticity of demand for rental homes is price inelastic.
 - b. the own price elasticity of demand for rental homes is price elastic.
 - c. the own price elasticity of demand for rental homes has unitary price elasticity.
 - d. rented homes and owned homes are complements.
 - e. rented homes and owned homes are substitutes.

3. An important determinant of the amount of grains harvested next year by Ethiopian farmers is the amount of seeds planted this year. Given that Western

nations have guaranteed to donate five hundred tons of grain next year, this year the Ethiopian farmers will:

- a. plant more seeds as the food aid establishes a minimum price for grain.
- b. plant more seeds as the farmers' confidence is restored.
- c. plant the same amount of seeds as they would have without the food aid.
- d. plant fewer seeds as consumers demand for grain is completely price elastic.
- e. plant fewer seeds as the price of grain will be lower with the food aid.

4. Ice cream can be frozen. In the short run the magnitude of the own price elasticity of demand for ice cream:

- a. is higher than in the long run.
- b. is lower than in the long run.
- c. is the same as in the long run.
- d. does not depend on the fact that ice cream can be frozen.

5. When the government controls the price of a product, causing the market price to be above the free market equilibrium price,

- a. only producers gain.
- b. both producers and consumers gain.
- c. only consumers gain.
- d. some, but not all, sellers can find buyers for their goods.

6. There are two techniques of egg production: free range (where hens roam around the farm) or factory (where hens are fed and watered in wire cages). The free range technique has a much more elastic supply curve than the factory technique. When the demand for eggs falls:

- a. egg production using the factory technique falls less than with the free range technique.
- b. egg production using the factory technique falls more than with the free range technique.
- c. the production using both techniques falls by the same amount
- d. the factory egg producers supply curve shifts inward.
- e. the free range egg producers supply curve shifts inward.

7. The own-price elasticity of the market demand for cigarettes is -0.4 . If the price falls by 5%, the quantity demanded will change by (tick the right answer):

- a) -2% ,
- b) $+2\%$,
- c) -0.8% ,
- d) $+0.8\%$.

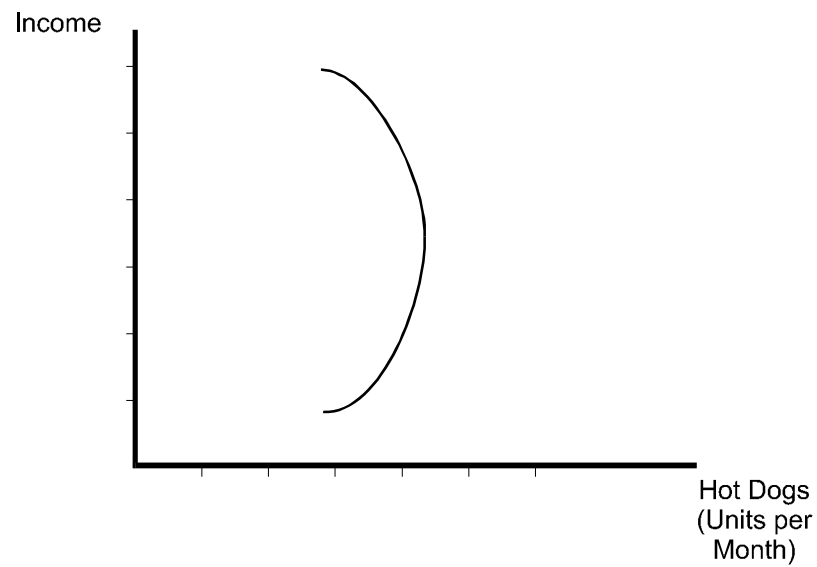
8. Demand for dress shirts is estimated to be $Q = 500 - 0.5P + 2I - 6T$. If (per capita) income, I , is 200 and the average price of T-shirts, T , is 50, when the price of dress shirts, P , is 200, the (per capita) income elasticity of demand is (tick the right answer)

- e) -80%
- f) 4.0
- g) 0.25
- h) 0.8
- i) Perfectly elastic

9. Suppose that, at the market clearing price of natural gas, the price elasticity of demand is -1.2 and the price elasticity of supply is 0.6 . If, initially, the price was 10 percent below the market clearing price, then at this initial price there would be:

- a. A shortage equal to 1.8 percent of the market clearing quantity.
- b. A shortage equal to 0.6 percent of the market clearing quantity.
- c. A shortage equal to 18 percent of the market clearing quantity.
- d. A shortage equal to 6 percent of the market clearing quantity.
- e. More information is needed.

10. Based on the diagram below it can be inferred that:



- a. hot dogs are a normal good for all levels of income.
 - b. hot dogs are an inferior good for all levels of income.
 - c. hot dogs are an inferior good for low levels of income, but at higher levels of income become a normal good.
 - d. hot dogs are a normal good for low levels of income, but at higher levels of income become an inferior good.
 - e. none of the above.
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