Price Theory I TFUs
Practice Set 07

Simon Oh

1. Suppose there are l identical leaders (L) and f identical followers (F) consuming a fashion good X where $l < f$. If given the price of X, the demand for X by the L falls when consumption of X by the Fs rises, but the demand by the F rises when the consumption of X by the L rises, then the demand for X by L would fall when the price of X fell. (3.3.4, Core 2012)

2. Suppose I take cream with tea and with coffee, although I use less cream per cup of coffee than per cup of tea. Still, cream is complementary with both tea and coffee. Yet a reduction in the price of coffee could reduce my demand for cream. (3.5.8, Core 2004)

3. Improvements in the quality of life (that raise the utility of each life year) will raise the willingness to pay for life extension (i.e. the value of a life year). (3.7.5, Core 2012)

4. Selling overhead bin space for carry-on baggage to passengers is efficient if different airline passengers have different values of time. (3.11.1, Core 2000)

5. ** If all household production functions are CRS Cobb-Douglas, with household labor shares equal to 2/3 and goods shares of 1/3, a rise in full income by 2% (or example, wage rates rise by 2%, and no other sources of income) would increase real full income by 0.67 percent. (3.17.3, Final 2008)

6. The marginal cost of producing a product is lower in the long-run than in the short-run because there are more options for how to produce that marginal unit in the long-run. (4.2.3, Core 2012)

7. ** A union of coal miners that raises the wage rate of miners will lower the profits of mining companies in the short run if this is a competitive industry. (4.5.4, Core 2001)

8. With constant returns to scale, the rate of growth of labor productivity will exceed the rate of growth of total factor productivity when the capital output ratio is rising. (4.7.5, Core 2001)

9. *All else equal, the current rental rate will be higher when computer prices are declining more rapidly. (4.22.3, Final 2000)