Price Theory I TFUs
Practice Set 10

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1. If human capital production is human capital intensive, then a permanent increase in the demand for human capital in the other (non-human capital producing) sectors could reduce the quantity supplied of human capital to those sectors in the short run. (4.22.5, Midterm 2007)

2. An increase in the price of gasoline will lead some car owners to switch to smaller more fuel-efficient cars. These owners might end up driving more miles, and even use more gasoline, than they did before the gasoline price increase. (Core 2008)

3. The introduction of a popular video game will reduce the demand for other video games if people who own game consoles view different games as substitutes for each other. (3.5.11, Final 2013)

4. If productivity of labor and capital rises by 2% in the market sector, and if at the same time productivity in the household sector of both time and goods rises by 2%, hours of work would not change because the rise in household productivity would eliminate both the substitution effect of greater market productivity toward more work, and the income effect toward reduced work. (3.17.4, Final 2011)

5. Suppose the government subsidies foods with low fat in order to reduce the death rate from heart disease. If consumers do not know about the effect of fat on heart disease, the increase in consumer surplus from this subsidy is measured by the product of the decline in the average probability of dying from heart attack due to less use of goods with high fat content multiplied by the average willingness to pay for that change in probabilities. (3.20.2, Final 1999)

6. Payroll taxes that finance social security and other social services raise the costs of labor, encourage capital/labor substitution, and reduce employment opportunities. (4.5.5, Core 1997)

7. An increase in the rate of technical progress in the capital goods producing sector could increase the rental cost of capital goods in the short run. (4.7.7, Fall 2008 Final)

8. *** Capital augmenting technological progress will increase real wages more than labor augmenting technical progress that has the same impact on TFP. (4.17.3, Midterm 2014)

9. A union of identical members would set a wage rate per hour that would maximize the total earnings of union members. (4.17.2, Fall 2007 Final)