PRICE THEORY I TFUS
PRACTICE SET 02

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1. A new technology that increases the amount of output per man hour in the U.S. electronics industry will increase production more when there is free trade (i.e. U.S. firms compete in a global market) than when there is no trade between countries due to tariff barriers. (3.2.1, GSB Final 1999)

2. *** Suppose that a successor to the Kyoto agreement requires that by 2025, every economy must cut its greenhouse gas emissions by 20%. This will increase the emissions of these gases in 2012. (3.4.2, Final 2011)

3. A permanent decrease in the cost of producing gasoline will lead to a greater increase in gasoline sales in the long run than in the short run, but could increase car sales more in the short run than in the long run. (3.6.1, Final 1999)

4. Holding the nominal income of each consumer constant, an increase in the price of one good holding the price of other goods constant will reduce the consumption of the good for which the price increased as long as that good is a normal good for each consumer.

5. If the firm is cost-minimizing and is at an optimum, the marginal cost is the same whether it changes only labor, only capital, or both. (4.2.1)

6. If there are a fixed number of firms in an industry and each firm has decreasing returns to scale, then capital and labor are more likely to be substitutes at the firm level than at the industry level. (4.4.1, Final 1999)

7. If a factor is inferior, then the factor demand may increase as the factor price increases. (4.6.1)

8. * Suppose two countries, A and B. They have the same CRS aggregate production functions, and each country has a fixed capital stock. Initially A has lower wages than B, and no immigration is allowed. If B wants to maximize the per capita income of its natives, it should allow unlimited immigration from A. (4.8.1, Core 2008)

9. If a monopolist produces wo products, say computers and software, he would never sell one of them below its marginal cost if all consumers are identical and he does not price discriminate. (4.10.1, Core 1999)