Price Theory I TFUs
Practice Set 04

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1. Richer families are more likely in any given society to employ maids and other domestic help than poorer families. *True, false, or uncertain.* This implies that the importance of domestic help should increase over time as a country develops and per capita incomes grow. (3.2.2, Final 2001)

2. A world market for saleable quotas for greenhouse-causing gases with a fixed supply of quotas, Q, would lead to more efficient allocation of production of these gases than would a unit tax on the emission of these gases by all firms in the world, if the tax also led to Q units of these gases being produced worldwide. (3.4.3, Core 2003)

3. A permanent reduction in the cost of producing gasoline may increase car sales more in the short run than in the long run but will increase the demand for car maintenance services more in the long run than in the short run. (3.6.2, GSB Final 1999)

4. In a world with N goods, a uniform percentage increase in the price of N/2 of these goods will reduce spending on these goods if all goods are normal for all consumers. (3.9.2, Final 2011)

5. Often the retail prices for popular videos are lower than the prices for less popular videos. This proves that the video retailing cannot follow the economic model in the theory. (4.1.3)

6. Rent control can reduce the demand for new housing even if the prices of new housing are not controlled. (4.22.1, Core 1997)

7. If a retailer is holding inventories of goods that he sells, he must be expecting the retail price of these goods to be rising over time because the inventories are costly to hold. (4.20.4, Fall 2008)

8. A good with important network economies for its customers would have an elastic aggregate price response even though the individual consumer responses were price inelastic. (4.16.1)

9. *** Suppose two countries that have the same aggregate CRS production function. The amount of capital is the same in both countries, and capital is immobile across countries and it is fixed in supply. Country A has less labor than B. Country A can either allow unlimited immigration from Country B or it can charge a fee to immigrants from B. In both cases, the average income of natives in A rises, but this average income rises more if A charges immigrants a fee that maximizes the revenue collected from the immigrants. (4.8.2, Midterm 2008)