# Price Theory I TFUs
# Practice Set 03

Simon Oh

1. The market demand for a good is more inelastic the greater the elasticity of supply of goods for which it is a substitute. (3.1.3, Core 1998)

2. Free trade with China will reduce real wages in the United States to the same level as those of the Chinese if the Chinese workers can produce manufactured goods as efficiently as workers in the U.S. (3.3.2, Core 2003)

3. Local governments may be willing to subsidize capital investments in manufacturing as a means of raising local labor demand even when labor and capital are gross substitutes for the manufacturing industry as a whole. (3.5.3, Core 2012)

4. When consumers overestimate the value received from a good and as a result purchase more of that good than they otherwise would, the loss to the consumer will be smaller when supply is inelastic since inelastic supply limits the degree of overconsumption. (3.7.4, Core 2013)

5. In times of tight supply, firms often do not raise the price charged to their long-term customers to the market clearing level and instead ration the amount they can purchase at a lower price than they can sell the good for on the spot market. In this case, they are not profit-maximizing. (4.1.2)

6. If all industries in a competitive economy have constant returns to scale and there are no industry-specific factors of production, all supply curves must be infinitely elastic. (Core 1994)

7. Firms in a competitive industry may like having a union of all its workers precisely because the union raises the wages that firms have to pay workers. (Core 2012)

8. You have two plants (A & B) that produce the same output using labor and capital. In plant A, labor and capital usages are each growing at 4% per year while output is growing at 5% per year. In plant B, capital usage is growing at 5% per year while labor usage is growing at 3% per year and output is growing at 6% per year. Based on this evidence, we can conclude that total factor productivity is growing faster in Plant B. (4.7.2, Final 1999)

9. A merger that is anticompetitive will generally raise the stock market value of the merging firms but lower the market value of other competing firms. (4.15.1)