Price Theory I TFUs
Practice Set 15

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1. Since a rise in the real interest rate will reduce wealth, holding current and future income fixed, higher interest rates make consumers worse off unless they are compensated by greater real incomes today or in the future. (Fall 2008 Final)

2. The recent fall in housing prices in many parts of the country has reduced people's real wealth and therefore should reduce their current and future consumption of income elastic goods. (Core 2008)

3. Assume the following new policy in the cigarette market: the government makes producers liable for the health consequences of their products and makes individual producers pay for the adverse health effects (i.e. compensate injured consumers for both the monetary and non-monetary costs of their injury). Then the aggregate health consequences from the consumption of this good should be improved. (3.20.4)

4. For a competitive industry with constant returns to scale, a tax on labor will raise the price of output more in the short run than in the long run if capital is fixed in the short-run but variable in the long-run.

5. If the government announces in 1996 that it will begin an investment subsidy in 1998, then capital rental rates will be higher than they otherwise would have been between 1996 and 1998; moreover, capital rental rates should be rising and capital prices should falling over this period. (4.22.13, Final 2001)

6. A fall in the cost of producing a durable good will reduce the capital price of that good more in the long run than the short run. In addition, in the short run capital prices will fall more in percentage terms than will rental prices. (4.22.16, Core 2008)

7. An increse in the cost of feeding cattle will raise the price of beef. (4.22.17, Final 2013)

8. Consider a 10% tax on rental flows vs. 10% tax on investments. How do their impacts on the steady state stock of capital compare? Tax revenues? (4.22.18, Final 2013)

9. Assume that firms have the ability to cheat customers by providing them with only 90% of the quantity claimed to be in a package and that consumers cannot detect whether they are being short-changed. Assume some firms are "honest" (and provide consumers with only 90% of the

quantity claimed). Consumers will be better off when at least some of the honest firms survive in equilibrium. (3.12.8, Final 2013)

10. Assume that teenagers are getting fatter partly because they correctly anticipate new drugs that will reduce the likelihood of overweight persons getting diabetes. Then the effects of these drugs on the incidence of diabetes (multiplied by the cost of diabetes) will correctly measure the social value of the drugs. (3.20.7, Core 2004)