Price Theory I TFUs
Practice Set 11

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1. In general, the demand for an input will be more elastic than the demand for the output produced due to the ability to substitute among factors as well as adjust output. (3.1.8, Core 2003)

2. An increase in the present value of income for a household generated by a fall in real interest rates will increase current consumption. (3.9.6, Final 2002)

3. An increase in a household's production technology that is factor neutral and uniform across commodities would not affect the total hours worked by the households in the market place. (3.17.5, Core 2006)

4. A rise in the price of an input will reduce the profits of a monopolist but may actually increase the profits of a competitive industry. (4.5.6, Final 2001)

5. Higher future demand for computing would imply lower prices of computing today. (4.22.6, Fall 2007 Final)

6. Real wages appear to be higher in larger than in smaller cities in most, if not all, countries. This is because the division of labor and efficiency of production is greater in large cities. (5.4.4, Core 2003)

7. Suppose it costs $200,000 in present value to raise a child to age 19. The government is considering whether to provide $15,000 to subsidize the college education of 18 year olds in order to increase fertility and the number of children that are sent to college. An economist argues that this subsidy is too small relative to the $200,000 cost to either appreciably affect fertility or the number of children sent to college. (Core 2008)

8. If each firm in an industry uses labor and capital in fixed proportions then there will be no substitution between labor and capital at the industry level. (4.8.4, Core 2004)

9. An increase in the property tax rate will increase the rental price of housing (inclusive of the property tax) in both the short run and the long run. (4.22.7, GSB Final 1999)