Price Theory I TFUs
Practice Set 09

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1. The price elasticity of demand for a good by a poor person is greater than the elasticity of a rich person who faces the same market price and has the same preferences. (3.1.7, Core 2002)
2. Suppose that the utility of consumers of good X are affected by other consumers of X so that they consume more when aggregation consumption of X is greater. Consumers have the same preferences, but they differ in incomes and all their incomes increase over time. This implies that the income elasticity of demand for X computed at a moment in time is less than the income elasticity of X computed from changes in average income and average consumption over time. (3.3.5, Final 2006)
3. * If it is costly for consumers to learn how to use computers then products that require computer use such as online music and digital photography will tend to be complements. (3.5.10, Core 2007)
4. ** Suppose a labor market where 25% of all equally productive workers are members of a minority group B, while others are members of the majority W. All workers supply 1 unit of labor. Assume that firms have identical production functions, and that 80% of firms dislike hiring B, while the other 20% are indifferent between B and W. Then equilibrium in this market would have the wage B's less than that of W's since the"marginal" firm discriminates, and the 20% of non-discriminators only hire B's. (3.11.3, Final 2011)
5. When an increase in the number of muggers on the street leads to a reduction in the number of muggings because people stop going out at night the external cost of crime is reduced. (3.21.1, Final 2011)
6. The fact that large firms pay higher wages than small firms suggests that the supply of labor is upward sloping at the firm level. (4.4.5, Core 2005)
7. An increase in the price of an inferior factor will raise industry profits. (4.6.3, Final 2000)
8. For a competitive industry with two factors (labor and capital) and constant returns to scale, an increase in output demand will increase the usage of labor more in the short run (when capital is fixed) than in the long run (when capital is freely variable) as long as the elasticity of substitution is greater than the elasticity of output demand. (4.8.3, Fall 2008 Final)
9. A tax imposed on one of two goods produced by a monopolist can cause the price of the untaxed good to fall. (4.10.2, Core 1995)