Price Theory I TFUs
Practice Set 05

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1. Suppose the supply function of servants is constant over time. A growth in income and wages in the country may reduce the number of servants even though the income elasticity of demand for servants is very strongly positive. (3.2.3, Core 1993)

2. A new law which mandates that employers provide health insurance to all workers will help workers that do not currently have employer-provided health insurance but will make those that do currently have it worse-off. (3.4.5, Core 2013)

3. A permanent increase in the demand for beef could lead cattle farmers to supply less beef in the short run. (3.6.5, Final 2008)

4. An increase in the real rate of interest will lead to a fall in housing prices. This fall in prices will be greater in the short-run than in the long-run. (3.9.5, Final 2011)

5. A new technology which allows all firms in a competitive industry to produce twice as much output from the same inputs will reduce prices and increase firm profits in the short run (when capital is fixed in the short run) and reduce prices more in the long run than in the short run. (4.2.2, Final 1998)

6. Industries with more variable demand will tend to have more elastic supply than industries with less variable demand. (4.4.3, Final 2008)

7. If wage rates are increasing faster than the rental price of capital goods, then we would expect labor usage to be falling relative to capital usage and output prices to be rising more slowly for capital intensive goods (i.e. those goods where capital's share is high). (4.7.3, Final 1999)

8. If Microsoft has monopoly power in computer operating systems due to network externalities, it might add to its monopoly profits by giving away free its internet browser. (4.16.3, Core 1998)

9. If all individuals in the economy are identical in every way and have access to the same strictly concave technology for investing in human capital then in equilibrium all individuals will make the same human capital investment choice. (5.5.1, Midterm 2012)