Price Theory I TFUs
Practice Set 08

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1. If the demand for illegal drugs is inelastic, then an intervention that seizes and destroys 10% of drug production will raise the profits of drug suppliers. (3.2.4, Core 2002)
2. *** A carbon tax (taxing each ton of CO2 emitted) would likely raise the profits of some fossil fuel producers if those fuels differed in the CO2 emission per unit of energy produced, and if the demand for energy is relatively inelastic. (3.4.7, Core 2013)
3. Oil and natural gas are complements in production, but are substitutes in consumption by firms and consumers. This implies that an increased demand for oil would lower the price of natural gas. (3.5.9, Final 2008)
4. Movie theatres charge lower prices to senior citizens (over age 65) because the value of time of seniors is less than the value of time of younger movie-goers. (3.16.2, Final 2013)
5. Knowledge that productivity growth will be higher than previously expected will lead to higher stock market valuation. (4.2.5, Core 2002)
6. *** An increase in the supply of skilled labor will generate biased technological change favoring skilled labor by increasing the incentive of firms to find technologies that efficiently utilize skilled labor. (4.4.4, Midterm 2009)
7. If the price of an inferior factor decreases and the output increases at the same time, then the firm should use more of that factor. (4.6.2)
8. *** With constant returns to scale, labor productivity will grow faster than total factor productivity if the real return to capital stays constant due to capital being elastically supplied. (4.7.6, Core 2003)
9. The fact that other firms in the same industry do not object to a merger between firm A and firm B suggests that such a merger is pro-competitive based on both economic efficiency and consumer benefit grounds. (4.15.3, Final 2000)