Price Theory I TFUs
Practice Set 06

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1. In general, the demand for a good is more inelastic for the poor than for the rich. (3.1.6, Final 2002)

2. Suppose the government attempts to cut the pollution of carbon dioxide gas by firms. The government could either tax the output of this gas, or give firms a limited number of salable permits to emit this gas. If the tax system and the permit system lead to the same total output of the gas, firms would be indifferent between the two systems. (3.4.6, Core 2007)

3. A technology improvement which increases the reproductive rate of livestock will (all else equal) reduce the price of livestock in the long-run but can increase the price of livestock in the short-run. (3.6.6, Midterm 2012)

4. A reduction in the tax rate on earnings for low wage workers will raise pretax wages for these workers. (3.10.4, Final 2013)

5. If an industry has both profit-maximizing and non-profit-maximizing firms (as with nursing homes) a shift down in the demand for the product would mainly lead to non-profits dropping out since non-profits tend to be the "marginal" firms. (4.1.6, Core 2006)

6. An increase in the price of an input to a competitive industry will often increase the profits of firms in that industry when output demand is relatively inelastic and some factors are fixed. (4.5.3)

7. In the neoclassical growth model a permanent increase in productivity caused by neutral technical progress will increase the current interest rate and reduce current consumption. (4.7.4, Midterm 2012)

8. In the 1950s, an antitrust suit against the single manufacturer of cellophane was correctly dismissed because the cellophane accounted for only a modest share of the market for flexible wrapping materials, even though the price of cellophane was very high. (4.9.1, Core 2000)

9. 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. (5.5.2, Core 2008)