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The Council of Community Colleges Common Coursework

Excelsior Community College

School of Business and Entrepreneurial Studies

Course: Micro Economics

Topic: Question 1 & 2

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**Question 1:**

1. Construct the demand and supple curve for milk to show the market equilibrium for milk.
2. Given a new government policy in the Microland, milk producers have started to obtain subsidiaries from the government. Construct a new diagram to show the impact of the subsidy on the market equilibrium.
3. Explain the effect of the subsidy on the market forces and the equilibrium point.

The effect of the subsidy will cause the supply curve to shift outwards resulting in a lower equilibrium and market price, this is will also contribute to an increase in the quantity demanded.

1. Describe there (3) other changes that could have the same effect in the market supply of the milk as the imposition of subsidy in (b) above.
2. Lowered cost in the factors of production: if the price of inputs involved in the production of milk decrease then suppliers will be more willing and able to increase their production. This is will cause the supply curve to shift out driving the market and equilibrium price down.
3. Increased competition: As more suppliers enter the market with the same good the supply curve would shift out, driving the market and equilibrium price down due to an increase in supply.
4. Advancement of technology: technological advancement in the sector will cause the supply curve to shift out because production would become more efficient reducing wastage and maximizing on the factors of production.

**Question 2:**

1. Complete the table to show total utility, marginal utility and marginal utility per dollar

|  |  |  |  |
| --- | --- | --- | --- |
| Number of visits the club | Total Utility | Marginal Utility | Marginal Utility per dollar spent going to the club |
| 1 | 40 | 40 | 20 |
| 2 | 75 | 35 | 17.5 |
| 3 | 100 | 25 | 12.5 |
| 4 | 115 | 15 | 7.5 |
| 5 | 120 | 5 | 2.5 |
| Number of football games watched | Total Utility | Marginal Utility | Marginal Utility per dollar spent watching football |
| 1 | 50 | 50 | 12.5 |
| 2 | 98 | 48 | 12 |
| 3 | 128 | 30 | 7.5 |
| 4 | 146 | 18 | 4.5 |
| 5 | 156 | 10 | 2.5 |

1. Describe diminishing marginal utility with reference to the data presented in the table.

The Law of Diminishing Marginal Utility states that as a person increases their consumption of a product, while keeping consumption of another preferred product constant there will be a decline in their marginal utility with each additional unit consumed or acquired in equal amounts. With reference to the table, when Mark first went to the club, his marginal utility was 40, the second time it was 35, the third time it became 25, his MU declined by 5 utility each visit. The more Mark went to either the club or the football game the more his satisfaction for both services declined.

1. State the requirements for Mark’s equilibrium/ maximum satisfaction.

The requirements for Mark’s equilibrium/ maximum satisfaction is that he must be able to equalize the marginal utility derived from the consumption of both the club and football game with his limited income, the utility derived from the last dollar spent on each good would be equal to 2.5

1. How many time can Mark go to the football game, and the club respectively, if he wants to maximize his satisfaction?

To maximize his satisfaction, Mark can go to the football game three (3) times and the club four (4) times.

4 club visits \* $2= $8

3 football games \* $4=12

$8 + $12 =$20