Douglas College

ECON1150-005

Principles of Microeconomics

Assignment #1

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1. Chapter 2, Problem #2.

The principle of maximization is about people’s motivation, it is about why do people do the things they do, which is something that already exists. And this principle helps economists to understand the world. But “why not” only applies to imaginary scenarios or situations.

2. Chapter 3, Problem #2.

a. In this chapter, value is just the exchange value of goods, in other words it is the “willingness” one can trade some amount of one good for some amount of another. So, in everyone’s mind, the same good may have different values. In Adam’s theory, it directly compares the value to the good to the amount of effort, which is kind of saying “more effort means more value”. But everyone has their own “price tag”.

b. Adam’s “the labor theory of value” is implicit in the student’s sentiment. The student is comparing the amount of effort which is put in the assignment with the deserved grade. In the student’s argument, everyone who put a lot effort in an assignment should get good grade, but the answer of the assignment doesn’t necessarily need to be right.

3. Chapter 3, Problem #4.

No, increasing the earthquake stands on school doesn’t make the school a better place. Assume the total budget stays the same, since the school needs to spend more budget on upgrading the building to withstand serious earthquake, but at the same time the budget on some other things is reduced. The school might have smaller or lower buildings, and some amenities might be sacrificed as well. For example, the equipment for science lab might to be reduced, and less computer labs.

4. Chapter 4, Problem #16.

The lot cost is a fixed cost. When this fixed cost is applied to a more expensive home and a less expensive home, the relative price of the more expensive home gets lower, which results in a higher relative consumption the more expensive home.

For example, let’s say the lot cost is fixed at $200,000, an expensive build costs $800,000, and a cheaper build costs $100,000. Without the lot, the relative price of the expensive building is $800,000/$100,000=8, but with the lost, the relative price becomes ($800,000+$200,000)/ ($100,000+$200,000) = 3.33, which significantly decreases. According to the law of demand, the quantity of more expensive build will go up.

5. Chapter 4, Problem #20.

a. It is less likely for a married person to go to night club compares to someone who is single. So, the people in night clubs are less likely to have children or spouse, which means the cost of smoking gets lower. Since the price goes down, the quantity goes up.

b. Gay couples can’t make their own babies, unfortunately. So, the cost of smoke is lower when compares to heterosexuals. Therefore, the quantity goes up. Note that here the proportion of gay couples who have children and the proportion of heterosexual couples who have children are being compared.

6. Chapter 4, Problem #22.

A consumer is in equilibrium when relative price is equal to marginal value. The consumer needs to maximize his utility, but buying nothing would not maximize his utility. By the principle of substitution, everyone is willing to trade.

7. Chapter 4, Problem #36.

9. (Bonus question)

Example 1: More people watching streaming services compare to people actually go to store and buy Blu-ray discs (quantity). The cost for both time and money of buying Blu-ray discs in-store is more expensive -- needs to spend time go to the store, needs to spend money on Blu-ray player. And buying a single movie is also more expensive compare to the price from steaming services.

Example 2: Manager and basic staff. The cost of hiring a manager is higher than basic staff. The quantity demand for how many managers to hire is low than basic staff.