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Intermediate Micro  
10.12.2011

**Test 1 Corrections**

*1A.*

For the demand of gasoline to fall 5% with an Ed of -.09 the price of gasoline would have to rise $1.84, or approximately 55.6% because when you use the equation E=( q/ p) and fill in the known variables to make -.09 = (-.05/ p) and you solve for x it will show an increase of .555, or 55.6%

*8.*

If X and Y are goods that are perfect substitutes, the ICC will extend along one of the axes. (Choice A). - This is because when goods are perfect substitutes you won't consume both of them in equal amounts unless you like both of them exactly the same amount and they are both the exact same price. If this is not the case you will consume EITHER all of good X or all of good Y.

*9.*

Michele's marginal rate of substitution will be -10 (Choice B) because

and and

and her utility function is U(F,I) = F.2I.8

and and

so

*11.*

A. The movement from Yb to Yc shows the substitution effect because the graph shows a rotation in good Y.

B. The movement from Yc to Ya shows the income effect because now that good y has rotated and x has stayed the same you can't afford as much y so you reduce your intake.

*12.*

B. By giving a $1000 subsidy it will eventually be passed onto the supplier and the consumer so you will split it down the middle, $500, $500. With this when you add 500 to the base price you will get Ps = $3700 and when you subtract $500 from the eqm price you will get Pd = $2700. Then you can plug this into their respective supply and demand functions and will find that there is an eqm quantity of 1325.

C.

By implementing a price ceiling of $2000, which is below the eqm price it will increase the quantity demanded which will create a shortage. In the long run the market will be allowed to return to equilibrium again as the price ceiling is not a binding price ceiling.

*13.*

A. When Newt is consuming 4 necklaces and 4 transatlantic flights his marginal utility of an additional necklace is:

When Newt is consuming 4 necklaces and 4 transatlantic flights his marginal utility of an additional transatlantic is:

B. Newt's ICC would be ICC = PxX + PyY

C. BC = PnN + PtT

N: M = PnN = 200000 = 5000N -> Necklaces = 40

T: M = PtT = 200000 = 1000T -> Transatlantic Flights = 200

D.

T

PT