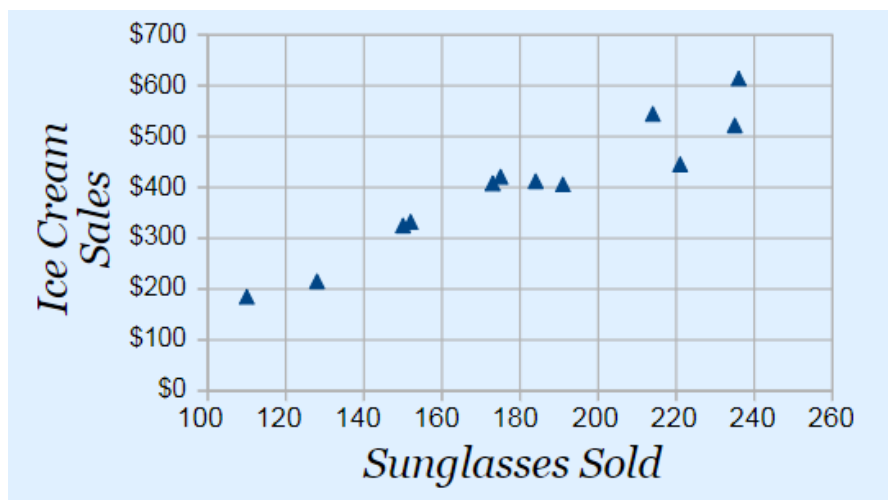


## ECON/ENVR/SOSC 2310 Assignment 1 (Due March 12)

**Q1:** Please identify the relationship shown in below is causal relation or correlation and give your reasons in detail.



**Q2:** Please categorize the following statements into positive statement or normative statements.

- i. If the government raises the tax on beer, this will lead to a fall in profits of the brewers.
- ii. A reduction in income tax will improve the incentives of the unemployed to find work.
- iii. The retirement age should be raised to 70 to combat the effects of our ageing population.
- iv. The rising price of crude oil on world markets will lead to an increase in cycling to work
- v. Resources are best allocated by allowing the market mechanism to work freely

**Q3 :** You visit the Disneyland from time to time. What is the opportunity cost of going to Disneyland? How about the benefit? Think about ways to measure your benefit of going to Disneyland.

**Q4:** The market for pizza in HKUST has the following demand and supply schedules:

Price	Quantity Demanded	Quantity Supplied
\$4	138	23
5	114	51
6	91	91
7	62	99
8	46	108
9	32	127

- Graph the demand and supply curves. What is the equilibrium price and quantity in this market?
- If the actual price in this market were *above* the equilibrium price, what would drive the market toward the equilibrium?
- If the actual price in this market were *below* the equilibrium price, what would drive the market toward the equilibrium?

**Q5:** Suppose the HK government requires beer drinkers to pay a \$2 tax on each case of beer purchased. (In fact, all the governments around the world impose beer taxes of some sort.)

- Draw a supply-and-demand diagram of the market for beer without the tax. Show the price paid by consumers, the price received by producers, and the quantity of beer sold. What is the difference between the price paid by consumers and the price received by producers?
- Now draw a supply-and-demand diagram for the beer market with the tax. Show the price paid by consumers, the price received by producers, and the quantity of beer sold. What is the difference between the price paid by consumers and the price received by producers? Has the quantity of beer sold increased or decreased?

**Q6:** The government uses two programs that affect the market for Chinese liquor (“Baijiu”). Media campaigns and labeling requirements are aimed at making the public aware of the dangers of drinking alcohol. At the same time, the Department of Agriculture maintains a price support program for grains (primary inputs of “Baijiu”), which raises the price of grains above the equilibrium price.

- How do these two programs affect alcohol consumption? Use a graph of the Chinese liquor market in your answer.
- What is the combined effect of these two programs on the price of “Baijiu”?
- The Chinese liquors are also heavily taxed. What effect does this tax have on consumption?

#### **Q7: Discussion**

In Israel, parents were required to pick up their children after school at 4pm every day. Most parents picked up their children on time and rarely, if ever, came after 4:30pm. If parents came late, teachers had to wait. There is no financial penalty of “being late.”

- What are the incentives of the parents picking up their kids on time?
- To encourage parents to come on time, a daycare center decided to fine parents for coming late: \$3 every time if they pick up their kids after 4pm. Somewhat surprisingly, the daycare center found out that less parents showed up on time. What do you think are the reasons?

#### **Q8. Discussion**

Making condoms widely available is considered to be an important tool of HIV prevention. To reduce HIV, the government can distribute free condoms in communities with high HIV prevalence. What would be the consequences of this program? How do you think people will respond to it and what its impact on HIV transmission? (Think about both direct and indirect consequences, recall the discussion on “seat belt laws” in class)