

Tutorial 1

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Topic 1 – Markets and Trade

Question 1. “Economics is about scarcity, choice and opportunity cost.” Explain what this means and give examples to illustrate your answer. How can the principles of choice based on opportunity cost be related to the decisions of parents with small children about whether or not to seek paid employment?

Question 2. Please watch this music video “Chill” (<https://www.youtube.com/watch?v=ddaEtF0sFeM>) from Vietnamese artist Đen ft. MIN. This song deals with the work-to-live or live-to-work struggle. How does it illustrate trade-offs and opportunity cost?

Question 3. Are the following statements normative or positive? Explain your answers in 1-2 sentences.

- a) The moon is made of cheese.
- b) Rich people should be taxed more.
- c) Reserve Bank of Australia intervention in markets is bad.
- d) Accounting majors earn more on average than Economics majors.

Question 4. You are moving from Melbourne to Perth. Suppose it costs \$1,500 to hire movers to help you move. If you move by yourself, it would take 12 hours. In this time, you could work a job which pays \$120/hour. If you are a rational economic agent, which option would you choose? Explain your response.

Question 5. Use the information below to calculate the total value created in each exchange. Theo found a boombox on Gumtree for which he would have been willing to pay up to \$40. The boombox’s owner, Crystal, needed to sell the boombox right away and would have accepted \$20. The price they agreed on was \$35.

Question 6. Answer the following questions:

- a) Is it possible to have a comparative advantage in the production of a good but not an absolute advantage? Answer yes/no, and provide an explanation.
- b) Is it possible to have an absolute advantage in the production of a good but not a comparative advantage? Answer yes/no, and provide an explanation.

Question 7. Now let's move to The Big Bang Theory. Suppose Leonard could make one meal in $1/2$ an hour, while the same task takes Sheldon 2 hours. Doing a basket of laundry takes Sheldon 4 hours but takes Leonard only 3 hours. We summarize all this information in the table below:

	Hours needed to make:	
	1 meal	1 basket
Sheldon	2	4
Leonard	$\frac{1}{2}$	3

In this setting the price of doing laundry baskets can be expressed in terms of meals given up. What is the highest price at which laundry baskets can be traded (in terms of meals given up) that makes both flatmates better off? What is the lowest price? Explain.