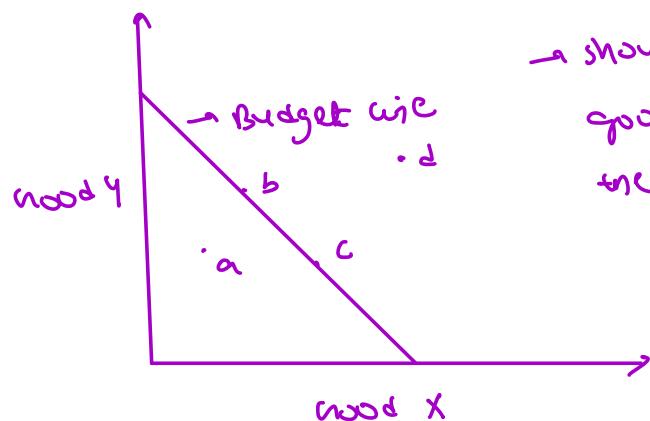


1.1) what is economics?

protectionism \rightarrow govt policies that restrict international trade to help domestic industries

① Budget line:



\rightarrow shows the various combinations of 2 goods that can be produced using the entire budget (of say \$x. billion)

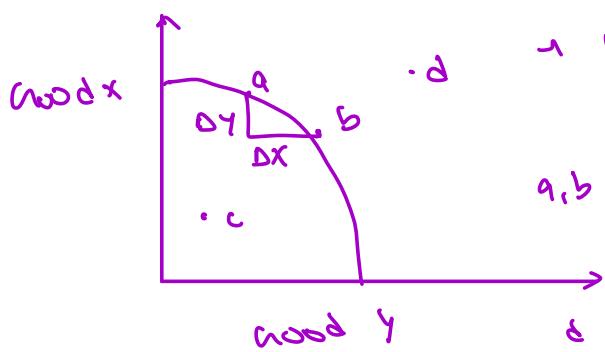
a \rightarrow attainable + inefficient use of resources

b,c \rightarrow attainable + efficient use of resources

d \rightarrow unattainable (exceeds the budget)

② Opportunity cost = cost of the next best alternative that is given up.

③ Production possibility curve:



\rightarrow concave: opp cost of either good inc as we inc production

a,b \rightarrow attainable, efficient (using all L, K available)

c \rightarrow unattainable (because resources are not sufficient)

\hookrightarrow attainable, inefficient (unused factors of production)

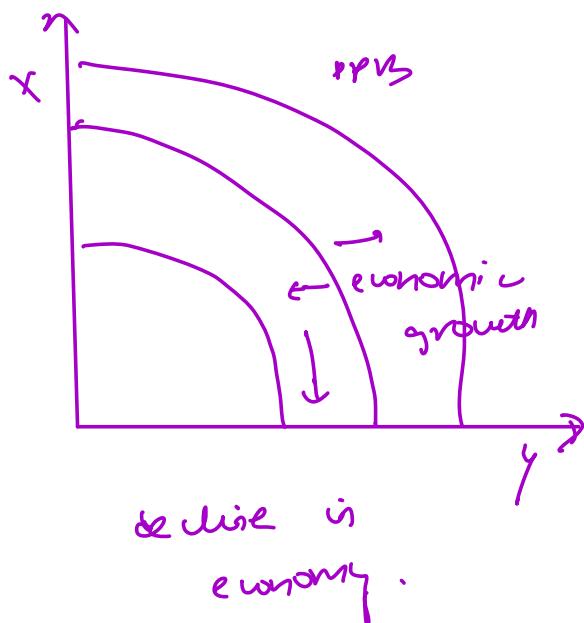
PPB:

diff combinations of goods that can and cannot be produced. given the current resources.

PPB is concave because each factor is not equally useful in producing all goods.

PPB shows scarcity, choice, opp cost.

opp cost \rightarrow negative slope.



free market economy:

features:

- ① self organising because ppl pursue self-interest
 - ② relatively more efficient :
 - a) offering the right mix
(the ones that consumers want)
 - b) using the least resources)
 - ③ lead to equilibrium market outcome.
(products are sold at the right place,
correct quantity of goods will be produced)
- guild : organisation for producers that oversaw the industry.
- invisible hand : unseen forces that move the free market economy.
- 3 decision makers :

① consumers	self-interest	Objective maximise utility	By selecting the right combination of goods to consume.
② producers		maximise profits	" " " "
③ govt benevolence		ensure citizens' well-being & health	By setting up

institutions, enforcing
freedoms, providing
public goods &
services

Consumers buy the product if:

$$MU > M\bar{E}$$

Marginal Utility > Marginal
Expenditure

Producers produce if:

$$MR > MC$$

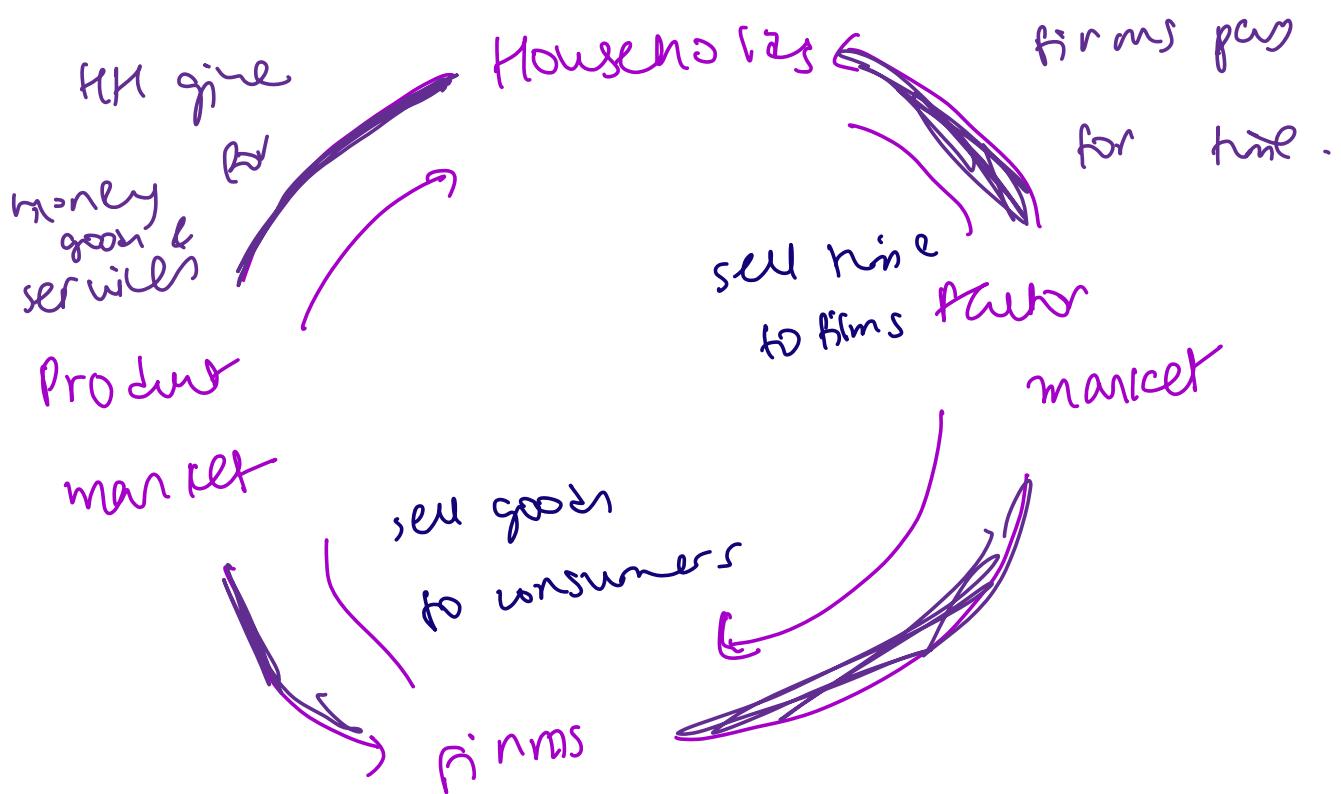
(cost)

(rev)

(profit) $\Pi = \text{total revenue} - \text{total cost}$

$$\Delta\Pi = \underbrace{\Delta TR}_{MR} - \underbrace{\Delta TC}_{MC}$$

circular flow of income:



factor market \rightarrow HH consumers / producers
firms \rightarrow consumers

Circular flow of income:

Good market:

producers \rightarrow sellers
consumers \rightarrow buyers

factor market:

producers \rightarrow buyers
consumers \rightarrow sellers

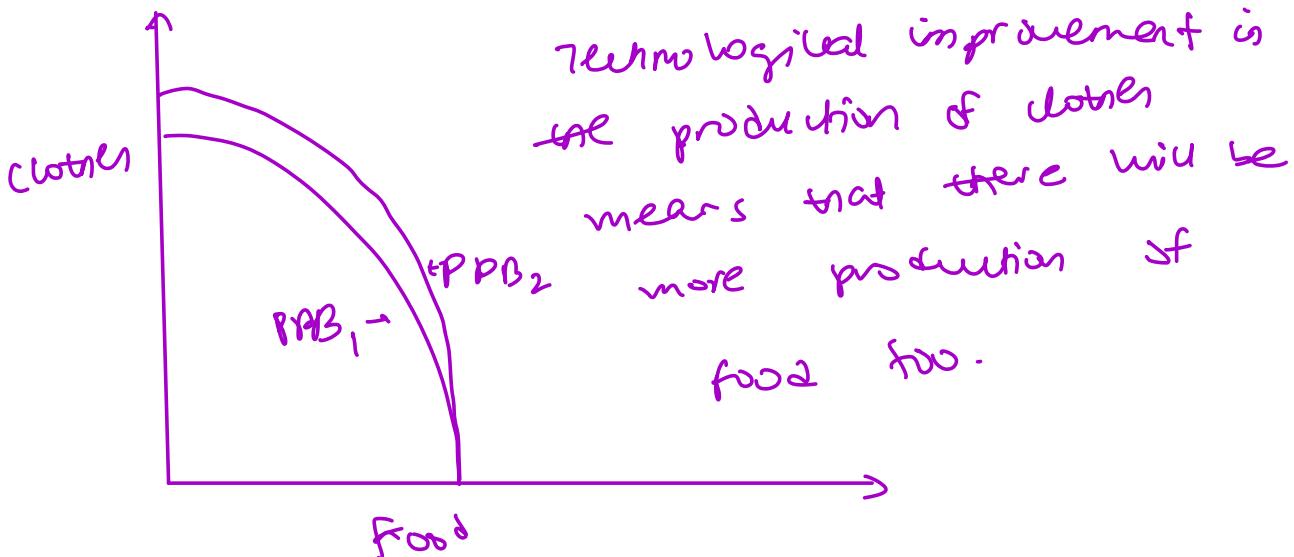
This model:

- 1) leaves out the govt's role
- 2) ignores the role of banks, financial institutions.
- 3) doesn't account for foreign trade.

— X —

Questions:

- ① Main characteristic of market economies:
institution)
- ② technological improvement in one good, means that a country can now produce more of other goods than it did previously.



→ —

① Opp cost.

Price of ATV = \$900
Price of snowmobile = \$1200

$$\boxed{\text{Opp cost of 1 ATV}} = \frac{\text{price of ATV}}{\text{price of snowmobile}} \\ = \frac{900}{1200} = 0.75$$

Note :

The opp cost does not depend on the quantity of goods you purchase.
It depends on the price of goods.

(which stays constant)

Opp cost of an additional bundle
of firewood .

$$= \frac{\text{No. of fish sacrificed}}{\text{No. of firewood gained}}$$

NOTE :

steeper PPB \rightarrow more opp cost

IMP QUESTIONS :

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ECO101 (Fall 2021)

Sanja Patodia | HW Score: 92.22%, 23.06 of 25 points Points: 2 of 2

Review Homework: Weekly Assignment: Module 1 Question 1, 1.1 Study Ex...

Suppose you own an outdoor recreation company and you want to purchase all-terrain vehicles (ATVs) for your summer business and snowmobiles for your winter business. Your budget for new vehicles this year is \$360,000. ATVs cost \$9,000 each and snowmobiles cost \$12,000 each.

a. Draw the budget line for your purchase of new vehicles.

Use the line drawing tool to draw a budget line. Properly label this line. Place end points one on horizontal and one on vertical axes.

Carefully follow the instructions above, and only draw the required objects.

b. What is the opportunity cost of one ATV?

The opportunity cost of one ATV is 0.75 snowmobile(s).
(Round your answer to two decimal places.)

c. What is the opportunity cost of one snowmobile?

The opportunity cost of one snowmobile is 1.33 ATV(s).
(Round your answer to two decimal places.)

d. Does the opportunity cost of one ATV depend on how many you purchase? Why or why not?

The opportunity cost of one ATV does not depend on how many you purchase because the opportunity cost of one good stays constant for a straight-line boundary.

Budget Line

Number of Snowmobiles

Number of ATVs

L1

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ECO101 (Fall 2021)

Sanja Patodia | 10/19/21 1:39 PM Points: 4 of 4

Review Homework: Weekly Assignment: Module 1 Question 2, 1.1 Study Ex...

HW Score: 92.22%, 23.06 of 25 points Points: 4 of 4

Suppose you and a friend are stranded on an island and must gather firewood and catch fish to survive. Through experience, you know that if each of you spends an entire day on either activity, the result is given in the following table:

	Fish	Firewood
You	9	5 bundles
Your Friend	13	2 bundles

You and your friend decide that you should each specialize so that one person catches fish while the other gathers firewood. But who should do which task?

a. What is the opportunity cost for you to gather an additional bundle of firewood?

The opportunity cost for you to gather an additional bundle of firewood is 1.8 fish.
(Round your answer to two decimal places.)

b. What is your friend's opportunity cost of gathering an extra bundle of firewood?

Your friend's opportunity cost of gathering an extra bundle of firewood is 6.5 fish.
(Round your answer to two decimal places.)

c. Assuming that you and your friend specialize, what allocation of tasks maximizes total output for your one day of joint effort?

To maximize total output for your one day of joint effort, you should gather firewood and your friend should fish.

d. Suppose you both decide to work for two days according to the allocation in part (b). What is the total amount of output?

The total amount of output is 26 fish and 10 bundles of firewood.
(Round your answers to the nearest whole number.)

What would it have been had you the reverse allocation of tasks?

Had you chosen the reverse allocation of tasks, the total amount of output would have been 18 fish and 4 bundles of firewood.
(Round your answers to the nearest whole number.)

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ECO101 (Fall 2021)

Review Homework: Weekly Assignment: Module 1

Question 6, 32.1 Study E... HW Score: 92.22%, 23.06 of 25 points Points: 3.5 of 5

The diagrams at the right show the production possibilities boundaries for Brazil and France, both of which produce two goods, wheat and rice.

Suppose that Brazil and France are initially not trading with each other and are producing at points C_1 and C_2 , respectively.

a. Which country has the comparative advantage in rice?

Brazil has a comparative advantage in rice production since it has a relatively steeper production possibilities boundary which implies a larger opportunity cost for the production for wheat.

b. Which country has the comparative advantage in wheat?

France has a comparative advantage in wheat production since it has a relatively flatter production possibilities boundary which implies a smaller opportunity cost for the production for wheat.

c. Now suppose that trade is implemented between the countries and the free-trade relative prices are shown by the slope of the dashed lines. Brazil will specialize in rice production and France will specialize in wheat production after the trade.

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ECO101 (Fall 2021)

Review Homework: Weekly Assignment: Module 1

Question 8, 32.1 Study E... HW Score: 92.22%, 23.06 of 25 points Points: 3.56 of 4

The following table shows the production of oats or corn in Venezuela and Uruguay. Assume that both countries have 9,000 acres of arable land.

	Venezuela	Uruguay
Oats	100 bushels per acre	75 bushels per acre
Corn	75 bushels per acre	50 bushels per acre

a. Which country has the absolute advantage in oats? In corn?

Venezuela has the absolute advantage in oats production and Venezuela has the absolute advantage in corn production.

b. Which country has the comparative advantage in oats production? In corn production?

Venezuela has a comparative advantage in corn and Uruguay has a comparative advantage in oats.

c. Which of the following is true?

- A. Even though a country may have an absolute advantage in all goods, it **cannot** have a comparative advantage in all goods.
- B. If a country has a comparative advantage in some goods, it **must** have a comparative disadvantage in other goods.
- C. Even though a country may have no absolute advantage in any goods, it **may** have a comparative advantage in some good.
- D. All of the above are true.

d. Venezuela has a comparative advantage in corn because, it has a lower relative opportunity cost of production for corn. For Venezuela, the opportunity cost of producing corn in terms of foregone oats is 1.33 bushels of oats for every bushel of corn. (Round your response to two decimal places.)

e. Use the line drawing tool to plot each country's production possibilities boundary on a scale diagram at right. Label the lines properly.

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ECO101 (Fall 2021)

Review Homework: Weekly Assignment: Module 1

Question 8, 32.1 Study E...

HW Score: 92.22%, 23.06 of 25 points
Points: 3.56 of 4

b. Which country has the comparative advantage in oats production? In corn production?
Venezuela has a comparative advantage in corn and Uruguay has a comparative advantage in oats.

c. Which of the following is true?

- A. Even though a country may have an absolute advantage in all goods, it **cannot** have a comparative advantage in all goods.
- B. If a country has a comparative advantage in some goods, it **must** have a comparative disadvantage in other goods.
- C. Even though a country may have no absolute advantage in any goods, it **may** have a comparative advantage in some good.
- D. All of the above are true.

d. Venezuela has a comparative advantage in corn because, it has a lower relative opportunity cost of production for corn. For Venezuela, the opportunity cost of producing corn in terms of foregone oats is **1.33** bushels of oats for every bushel of corn. (Round your response to two decimal places.)

e. Use the line drawing tool to plot each country's production possibilities boundary on a scale diagram at right. Label the lines properly.

Carefully follow the instructions above, and only draw the required objects.

f. What is shown by the slope of each country's production possibilities boundary?

- A. The opportunity cost for goods between the countries.
- B. The quantity demanded in that country for each good.
- C. The opportunity cost in that country for each good.
- D. The quantity produced in that country for each good.

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