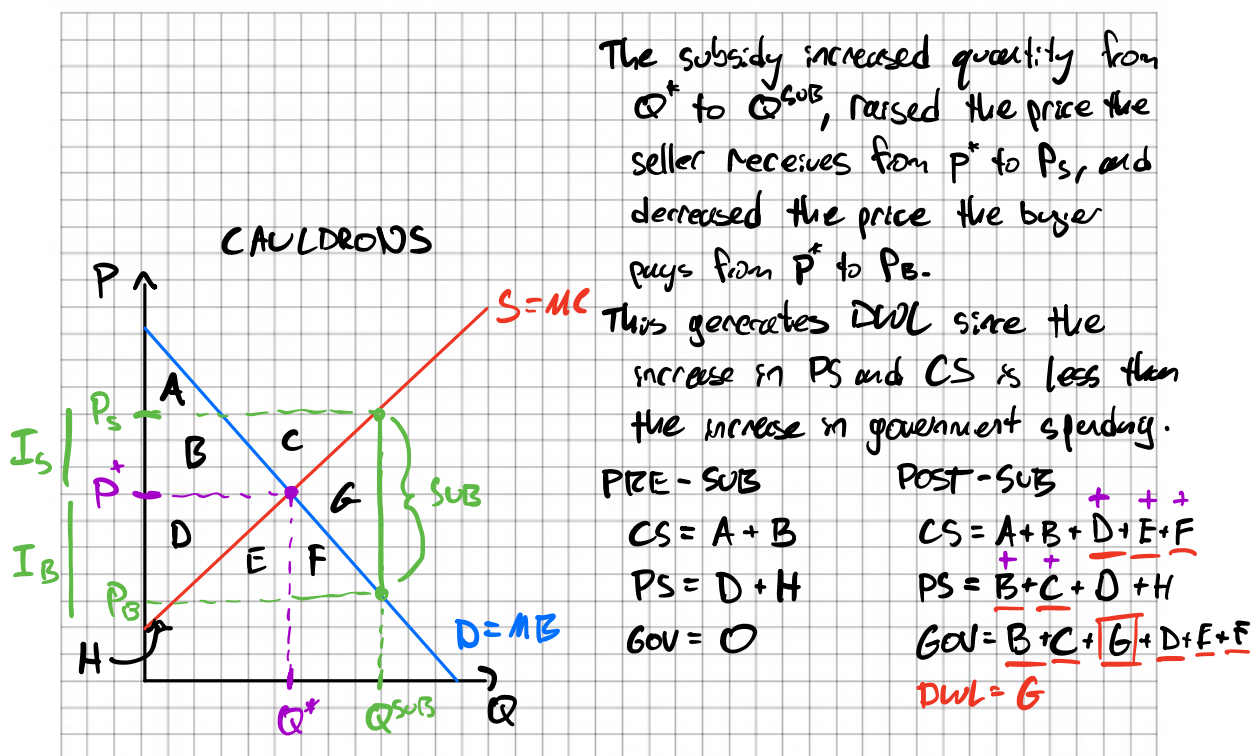


Econ 0100 | Classwork C2

Due in Recitation

Question 1 (of 3) | The Cauldron Conundrum

Because of regulations imposed by the Ministry of Magic, all cauldrons had to be manufactured identically in every dimension. The hope was that this uniformity in production would make it easier to train witches and wizards to use the cauldrons. Anyone could easily start manufacturing cauldrons, though the number of cauldron manufacturers had been constant over the past few years. This changed when the Ministry imposed a small subsidy on all cauldron sales, hoping to spur interest in potion-making among the young. Using a couple of graphs to illustrate your answer, explain what happened in the cauldron market because of this subsidy.



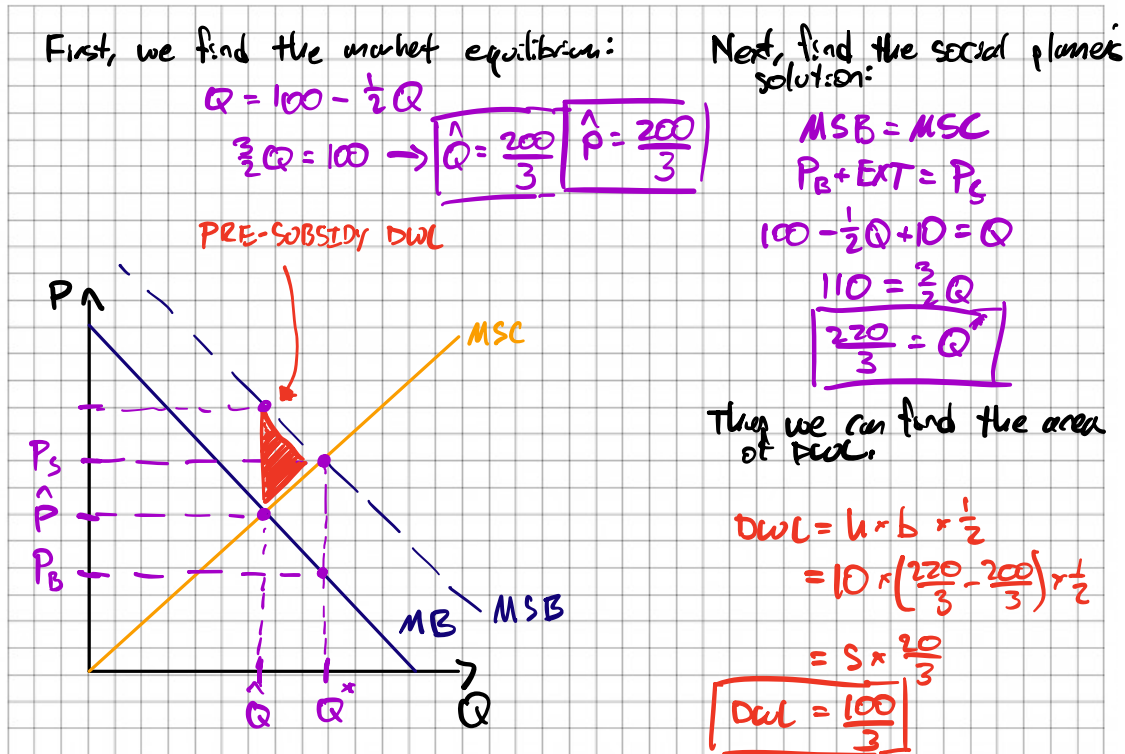
Question 2 (of 3) | Yard Flowers (alt.)

As a small residential town, Hogsmeade has both 1) many shops, and 2) many homes near the town center. Residential homeowners often plant flowers in their front yards, contributing to the positive atmosphere in town. There are numerous garden stores selling supplies for planing and growing many varieties. The supply and demand relationships for a dozen (generic) flowers is given by the following equations, with prices in Galleons.

$$P_B = 100 - \frac{1}{2}Q_d$$

$$P_S = Q_S$$

Recently, a study found a positive impact on the wellbeing of the community from the flowers planted in the front yards of their neighbors. The impact was estimated to carry a value of 10 Galleons per dozen flowers planted. Use a graph and algebra to calculate the size of the market failure by identifying and calculating the deadweight loss.



Question 3 (of 3) | Yard Flowers (alt.)

The Ministry of Magic has hired you, a burgeoning young economist, to suggest to the Hogsmeade city council how to go about maximizing the welfare of its residents in light of the benefits of planting flowers. Use the graph above to design a policy. Be as specific as possible by specifying the prices and quantities after the policy.

We should implement a subsidy of 10 Galleons per dozen. This will raise equilibrium quantity to the socially efficient quantity by raising the sellers price and lowering the buyers price. This is shown on the graph above.