

TREM TEST 1
PRICIPLES OF ECONOMICS
TTIME 50 minutes Marks: 30

Answer any one of the following

1. (a) Using the demand/supply model explain the effects of the following on the market for pizza: (3X6=18)

- i. the price of mozzarella cheese increases
- ii. Consumers' incomes increase
- iii. More pizza producers enter the market
- iv. A new report states that pizzas consumption contributes to heart disease
- v. New pizza ovens reduce the cooking time of pizza
- vi. McDonalds lowers the price of its burgers

(b) Severe floods in Sylhet caused vegetable prices to increase sharply in Bangladesh. Use the model of demand and supply to illustrate the vegetable market and explain why prices have increased. What would happen in substitute markets? 12

2. (a) On most days the price of a rose is \$1 and 8000 roses are purchased. On Valentine's Day, the price of a rose jumps to \$2 and 30 000 roses are purchased.

- i. Draw a demand and supply diagram that shows why the price jumps. 5
- ii. Based on this information, what do we know about the price elasticity of demand for roses? Calculate values for the price elasticity of demand and the price elasticity of supply or explain why you can't calculate these values. 2+8

(b) Rank the following four goods from lowest income elasticity of demand to highest income elasticity of demand. Briefly explain your ranking. 4X2= 8

- i. Bread ii. Pepsi iii. Mercedes-Benz cars iv. Personal computers

(c) Sherry always buys 50 liters of petrol every week, regardless of the price. Andrew always buys exactly \$50 of petrol every week, regardless of the price. What is their elasticity of demand for petrol? 07

GOOD LUCK

AMJ