**1**

Use the concept of opportunity cost to explain the following:

**The opportunity cost** (O.C.) is the "cost" incurred by not enjoying the benefit that would have been had by taking the second best available choice

a) More people choose to get graduate degrees when the job market is poor.  
- The O.C. in this case, are the benefits that those people who chose to graduate are not enjoying (such as a regular income etc), because they refused to exploit this situation of poverty in the job market and decided to invest in their education.

b) More people choose to do their own home repairs when the economy is slow and hourly wages are down.  
- The opportunity cost, in this case is the money people would save if they decided to invest on other people doing home repairs, rather than repairing them themselves - since the price of hourly wages are down, Do-it-yourself repairs are not the best option.

c) There are more parks in suburban than in urban areas.  
- The opportunity cost is the benefits that parks would have been had if built in urban areas (usually polluted) – where they are scarcely present nowadays – rather than in suburban areas

d) Convenience stores, which have higher prices than supermarkets, cater to busy people.  
- The opportunity costs are the money that would have been saved if people had found the time to go to supermarkets rather than convenience stores, which are the most expensive between the two categories of stores

e) Fewer students enroll in classes that meet before 10:00 A.M.

- The opportunity cost of these students’ behavior is the time that would have been saved if they decided to attend classes earlier than they do for the most part

**2**

In August 2007, a sharp downturn in the U.S. housing market reduced the income of many who worked in the home construction industry. A Wall Street Journal news article reported that Walmart's wire-transfer business was likely to suffer because many construction workers are Hispanics who regularly send part of their wages back to relatives in their home countries via Walmart.

With this information, use one of the principles of economic-wide interaction to trace a chain of links that explains how reduced spending for U.S. home purchases is likely to affect the performance of the Mexican economy.

**One person’s spending is another person’s income (Principle N° 10)**

If the Spending for U.S. home purchases is decreasing or reduced, the income of many Hispanic workers who are from Mexico would be lower (since less houses are needed, lots of them might also be fired). In this situation less money (through cash transfer programs) will reach these workers’ relatives in Mexico, who will find themselves having a lower income. This mean they will not be able to spend as much as they did before and because Mexican economy is strictly tied to those workers sending home a part of their wages and it will have to face a huge problem given that people are not able to afford certain goods anymore.

**3**

Explain whether each of the following event represents (i) a shift of the [demand curve](https://moodle.unive.it/mod/resource/view.php?id=38952), or (ii) a movement along the [demand curve](https://moodle.unive.it/mod/resource/view.php?id=38952).

1. a store owner finds that customers are willing to pay more for umbrellas on rainy days.   
   - Shift of the Demand Curve
2. When Circus Cruise Lines offered reduced prices for summer cruises in the Caribbean, their number of bookings increased sharply.  
   - Movement along the Demand Curve
3. People buy more long-stem roses the week of Valentine's Day, even though the prices are higher than at other times during the year.  
   - Shift of the Demand Curve
4. A sharp rise in the price of gasoline leads many commuters to join carpools in order to reduce their gasoline purchases.  
   - Movement along the Demand Curve

**4**

The market for brioches has the following demand and supply schedules:

|  |  |
| --- | --- |
| Price | Supply |
| 4 | 26 |
| 5 | 53 |
| 6 | 81 |
| 7 | 98 |
| 8 | 110 |
| 9 | 121 |

|  |  |
| --- | --- |
| Price | Demand |
| 4 | 135 |
| 5 | 104 |
| 6 | 81 |
| 7 | 68 |
| 8 | 53 |
| 9 | 39 |

a) Graph the [demand curve](https://moodle.unive.it/mod/resource/view.php?id=38952) and the supply curve

b) Which is the equilibrium price for this market? What about the equilibrium quantity?

- The equilibrium price for this market is 6$ and the equilibrium quantity is 81 units

c) Suppose that the current price is above the equilibrium price. What would drive the market towards equilibrium? Now suppose that the current price is below the equilibrium one. How would you previous answer change?

a) If the current price is above the equilibrium price, sellers will reduce the price so they can sell their goods and avoid a surplus   
b) If the current price is below equilibrium price, sellers will increase the price to increase the revenue (and the production) to reach the equilibrium

d) Consider that brioches and cappuccinos are complementary goods. Suppose that, starting from an equilibrium condition on both markets, you observed an increase in the equilibrium price of brioches and in the equilibrium quantity for cappuccinos.

Could such a change be caused by a reduction in the price of wheat?

- No, because the reduction in price of wheat also diminishes the price of brioches, even though it increases the equilibrium quantity of brioches. Hence the brioches ‘demand is the same and there is a right shift in the supply, so the quantity increases and price decreases

Could such a change be caused by a reduction in the price of milk?  
- Yes, because milk’s price reduction, increases the equilibrium quantity of cappuccinos. Since it is a complementary good, if cappuccinos’ price diminishes, its complementary good’s quantity increases.

**5**

Assume that the market for a specific good is initially in equilibrium.

Define and represent graphically how the equilibrium price and quantity change in the following cases:

a) Demand increases, supply increases



b) Demand increases, supply decreases 

c) Demand decreases, supply decreases 

d) Demand decreases, supply increases 