Econ 101 Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Summer 2013

Quiz #2

Please write all answers neatly and legibly.

1. (2 points) Consider the market for bicycles which is initially in equilibrium. Suppose that the Surgeon General releases a report that indicates the bicycle riding helps prevent serious disease. Given this information and holding everything else constant, what do you predict will happen to the equilibrium quantity and price of bicycles? In your answer provide a well-labeled diagram to depict this market and the changes that occur in this market.

2. (2 points) Consider the market for milk which is initially in equilibrium. Recent reports link the consumption of milk with obesity concerns. At the same time the cost of pasture for dairy cows has risen substantially. Holding everything else constant, what do you predict will happen to the equilibrium price and quantity in the market for milk given this new information? If any curves shift, be sure to identify these shifts and the direction of these shifts in your answer. In your answer provide a well-labeled diagram to depict this market and the changes that occur in this market.

3. (2 points) Suppose the market for bananas is described by the following equations where P is the price per unit of bananas and Q is the quantity of units of bananas:

Demand: Q = 100 – 2P

Supply: Q = P + 25

What is the value of producer surplus in the market for bananas when this market is in equilibrium? Show how you calculated this value. Make sure you provide a unit of measurement for your final answer.

4. (2 points) Suppose that in the market for bananas described in the last question that the government decides they would like to increase the number of bananas sold to 80 units of bananas. The government decides to reach this goal by implementing a subsidy per unit of bananas provided in the market. How big a subsidy would the government need to implement to reach this goal if nothing else changed in the market? Explain how you found your answer.

5. (2 points) Suppose that the banana market described in problem 3 is a closed market in a small economy. Furthermore, suppose that the world price of a unit of bananas is $30 per unit of bananas. Suppose this market opens to trade. Describe verbally the quantity of bananas produced domestically in this economy, the quantity of bananas consumed domestically, and the level of imports or exports of bananas for this economy. Explain your answer.