

Please write your answers neatly and legibly.

1. (1 point) Consider the market for bicycles in Orevia. Currently this market is in equilibrium with the equilibrium price, P_1 , and the equilibrium quantity, Q_1 . Suppose that the labor used in producing bicycles lobbies successfully for a higher hourly wage. Given this information and holding everything else constant, what do you predict will happen to the equilibrium price and equilibrium quantity in this market relative to their initial levels?

2. (1 point) Consider the market for bread in Mongoville. Currently this market is in equilibrium with the equilibrium price at \$2 per loaf of bread and the equilibrium quantity of bread equal to 100 loaves of bread per day. Suppose that in Mongoville people's taste and preferences for bread alter when most of the population adopts a low-carbohydrate, high protein diet (bread is a carbohydrate). At the same time the bread producers in Mongoville are joined by ten new bread producers. Given this information and holding everything else constant, what do you predict will happen to the equilibrium price and equilibrium quantity relative to their initial levels?

3. (2 points) Consider the market for widgets. Currently this market is in equilibrium with the equilibrium price, P_1 , and the equilibrium quantity, Q_1 . Suppose that the income of people in this economy increases while at the same time there is a technological improvement that reduces the cost of producing widgets. Given this information, carefully analyze the impact on the equilibrium price and equilibrium quantity relative to their initial levels. For full credit you need a sound explanation of your final answer.

4. Consider the market for coffee. This market can currently be described by the following market demand and supply curves will P is the price per cup of coffee measured in cents and Q is the cups of coffee:

Market Demand for Coffee: $Q = 500 - 5P$

Market Supply of Coffee: $Q = (5/3)P - (100/3)$

- a. (4 points) Given this information, calculate the equilibrium price and equilibrium quantity of cups of coffee in this market. Also, calculate the value of consumer surplus (CS) and producer surplus (PS). Record your answers, including the relevant units of measurement, in the spaces provided. Show your work for full credit.

Equilibrium price of coffee = _____

Equilibrium quantity of cups of coffee = _____

CS = _____

PS = _____

- b. (2 points) Suppose that a price floor is imposed in the market for coffee by the government. If this price floor is set at 90 cents per cup of coffee, what will be the impact on this market? Provide a verbal description of the impact of this price floor on the equilibrium price in the market, the quantity of coffee sold once the price floor is imposed, and its effect on consumer and producer surplus.