Econ 102 Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Summer 2013

Quiz #2

Please write all answers neatly and legibly.

1. (2 points) Suppose the market demand and supply curves for a market are initially given by the following equations:

Market Demand: Q = 20,000 – 10P

Market Supply: Q = 50P – 10,000

where Q is the market quantity and P is the price per unit. Suppose something happens in this market such that the market, once it adjusts to this event, finds itself at a new equilibrium price of $800 and a new equilibrium quantity of 12,000 units. Which of the following (circle your preferred answer) is most likely the cause of this new equilibrium?

* 1. The market demand curve shifted.
  2. The market supply curve shifted.

1. (2 points) Suppose the market for coffee beans is initially in equilibrium. Suppose that simultaneously bad weather destroys much of this year’s coffee bean crop and a report by the Surgeon General reports that drinking coffee is hazardous to your health. Given this information and holding everything else constant,
   1. The equilibrium price of coffee beans will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ relative to the initial equilibrium price.
   2. The equilibrium quantity of coffee beans will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ relative to the initial equilibrium quantity.
2. Suppose the domestic market for peanuts in Topland, a small economy, is described by the following equations:

Domestic Demand: P = 10 – (1/5)Q

Domestic Supply: P = 1 + (1/4)Q

where P is the price per unit of peanuts and Q is units of peanuts. The world price of peanuts is $3 per unit.

* 1. (1 point) Given the above information, if the peanut market in Topland opens to trade, how many units of peanuts will be exported or imported? Make sure your answer identifies whether Topland will import or export peanuts.
  2. Suppose the government of Topland imposes an import quota of 9 units of peanuts. Given this information:
     1. (1 point) What will be the price of a unit of peanuts in Topland? Show your work for full credit.
     2. (1 point) What will be the value of consumer surplus given this quota? Show your work for full credit.
     3. (1 point) What will be the value of license holder revenue given this quota? Show your work for full credit.
     4. (2 point) What will be the value of deadweight loss due to this quota? Show your work for full credit.