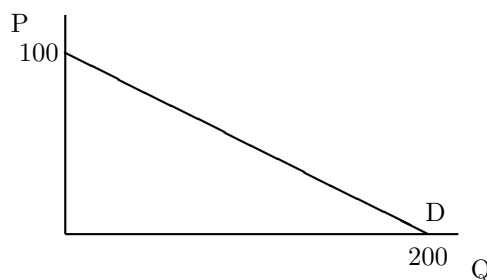


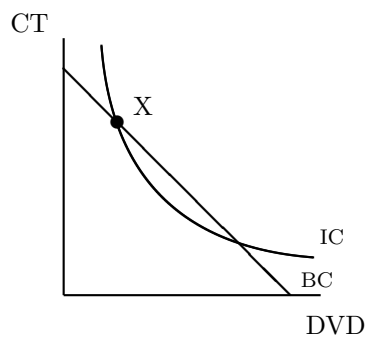
The following questions — which cover first-exam material — have appeared on past ECON 2106H exams. The question on the upcoming exam (Thursday, February 5th) will have roughly the same format as these questions. That said, none of this year’s exam questions will exactly match the questions on this handout. Some will be quite similar (same basic question; different numbers); some will be quite different. Remember also that there will be at least one test question taken from our “financial crisis” material. [Note that the actual exam will leave enough space for you to write answers on it.]

- Use the demand curve illustrated in the accompanying figure to answer each of the following.



- When the market price of the good is \$60 per unit, what quantity is demanded?
 - At this price, what is the price elasticity of demand? *[Use any method you want to find this answer, but please show your work.]*
 - At price = \$60, is the demand for this good elastic or inelastic?
 - Starting from \$60, a small increase in in the market price of this product would cause what sort of change in consumers’ total expenditure on this good?
- As a result of a 5% increase in the price of the good “snehta”, consumers’ *total expenditure* on the good falls by 2%.
 - The price rise in snehta led consumers to buy a smaller quantity of it. Given the above figures, by how much (in percentage terms) must the the quantity demanded of snehta have fallen?
 - Given your previous answer, what (in the relevant price range) is the value of the demand elasticity for snehta? *[Please show how you got your answers.]*

- The straight line in the accompanying figure is Brian Burton’s budget constraint for DVDs and concert tickets. The curved line is one of Brian’s indifference curves for the same two goods.



- Very briefly state (i.e., use just a couple words) how you would find — at any particular starting bundle of concert tickets and DVDs — the largest number of CTs that Brian is willing to give up to get one additional DVD.
 - Very briefly state how you would find — at any particular starting bundle of CTs and DVDs — the number of CTs that Brian in fact has to give up in order to get one additional DVD.
 - At point X, which is greater: the number of CTs that Brian is willing to give up to get one more DVD, or the number of CTs that Brian has to give up to get one more DVD?
- Suppose that the value of the demand elasticity for good A is considerably larger than is the demand elasticity for good B. In general terms — which is all you can use since you don’t know what these goods are — list two reasons that would cause the demand elasticity for one item to be larger than is the demand elasticity for some other item.

5. The two curves in the accompanying figure are two of Declan MacManus's indifference curves for coats and hats; the straight line is Declan's budget constraint for the same two goods.

- (a) Is it possible to find a point in the diagram that has the following two characteristics?
(i) The point illustrates a combination of goods that would be more expensive to consume than would the bundle of goods shown by point P, but *(ii)* consuming at this point would leave Declan with a lower level of satisfaction than he would experience at point P.

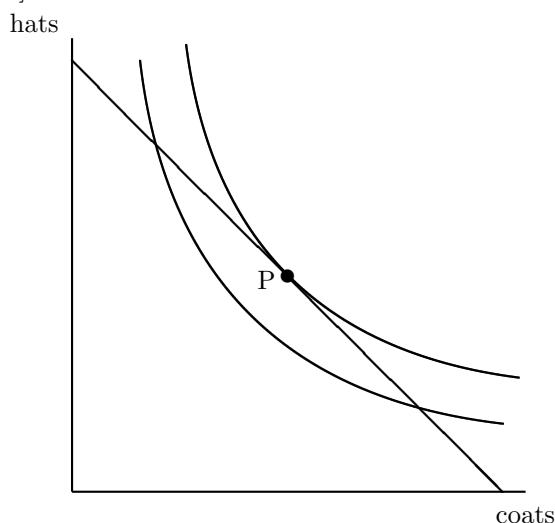
If such a point can be found, add to the diagram one point that has both of these characteristics. If such a point can't be found, briefly explain why not.

- (b) Is it possible to find a point in the diagram that has the following two characteristics. *(i)* The point illustrates a combination of goods that would be just as expensive to consume as would the bundle of goods shown by point P, but *(ii)* consuming at this point would leave Declan with a higher level of satisfaction than he would experience at point P.

If such a point can be found, add to the diagram one point that has both of these characteristics. If such a point can't be found, briefly explain why not.

[Please make sure to clearly label your two points.]

[Note: for this question, it doesn't matter what consumption choice Declan would actually make; the issue is simply which points — whether Declan would want to be there or not — have the characteristics described above.]



6. (a) Write down the formula for the cross-price elasticity of demand.
 (b) If the cross-price elasticity of demand between goods X and Y is a negative number, would a seller of good X hope that the sellers of good Y would raise or lower their price? Why?

7. Briefly describe one “bias” (consistent with the approach of behavioral economics) that appears in people's real-world decision making.

8. (a) Construct a willingness-to-pay table for Good X for Emma Pollock — the good's per-unit market price is \$20 — that is consistent with the following two statements: *(i)* Emma decides (behaving in the way that leaves her as well off as she can be) to buy exactly two units of the good, and *(ii)* Emma experiences \$20 worth of consumer surplus as a result of buying those two units.

- (b) Assume that the per-unit price of the good falls to \$15. [Emma's willingness-to-pay table for the good remains unchanged.] Indicate whether the following statement is *true* or *false*: as a result of the price change, the (total) consumer surplus that Emma experiences from the good could rise by *more* than \$10. Briefly explain or illustrate your answer.