

## Quiz 4

Microeconomics - EC 2106

Fall Semester 1999

Instructor: Robert McNab

Name: \_\_\_\_\_

Score: \_\_\_\_\_

**INSTRUCTIONS:** Please answer all questions to the best of your ability within the allotted time of 10 minutes. You are required to show your work to receive credit. For multiple choice and true/false questions, please circle the appropriate answer. 10 possible points.

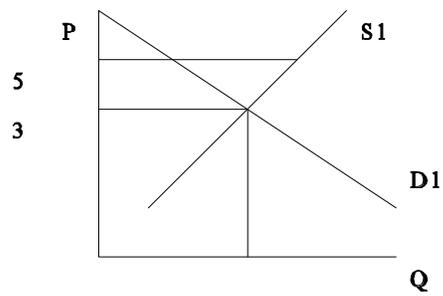
1. Which of the following statements is most accurate (1 point)?
  - a. All else remaining equal, if supply increases and demand decreases, price will decline and quantity will increase.
  - b. All else remaining equal, if supply decreases and demand increases, price will increase and quantity will decrease.
  - c. All else remaining equal, if supply increases and demand increases, price will be ambiguous and quantity will decrease.
  - d. All else remaining equal, if supply decreases and demand decreases, price will be ambiguous and quantity will decrease.
  
2. Assume the market for minivans is in equilibrium. All else remaining equal, if the steel prices decline 5%, what would happen to the equilibrium price and quantity for minivans? Choose the most accurate answer (1 point).
  - a. Equilibrium price and quantity would decrease.
  - b. Equilibrium price would increase and quantity would decrease.
  - c. Equilibrium price would decrease and quantity would increase.
  - d. Equilibrium price and quantity would increase.
  
3. T F Assume that the price of gold is \$325 an ounce in London and \$318 an ounce in New York and that transaction costs are equal to 2% of the price per ounce. Is the following statement true or false: There exists sufficient differentiation in price between the two markets for arbitrage would occur (1 Point).
  
4. Over the past ten years, we have observed that the market price for computers has decreased while at the same time the market quantity for computers has increased. This indicates that (1 Point):
  - a. Market Supply has decreased by more than Market Demand has increased
  - b. Market Demand has decreased by more than Market Supply has increased
  - c. Market Demand has increased by more than Market Supply has increased
  - d. Market Supply has increased by more than Market Demand has increased

5. Microsoft Vice-President Steven Balmer recently stated that “the prices of technology stocks, including Microsoft are overvalued.” Before the statement, shares of Microsoft were trading at 98, two days later, Microsoft’s share price had fallen to 91. What impact would this have on the price of the MSFT95H futures contract in the IEM (1 Point)?
- The price of the MSFT95H futures contract would be unaffected.
  - The price of the MSFT95H futures contract would increase.
  - The price of the MSFT95H futures contract would decrease.
  - There is no MSFT95H futures contract in the IEM.
6. You have recently been hired as a staff economist for the Congressional Research Office. You are asked to evaluate a proposal currently being considered before Congress. The ‘Small Farmer Protection Act’ would establish a minimum price for beef at \$5/lb which is \$2 above the current market price of \$3/lb. What would you recommend? Make sure to explain and illustrate your answer completely (3 points).
7. Even though the number of people accessing the Internet has increased dramatically, the price of Internet service has continued to drop over time. Illustrate how this might occur (2 points).

Answer Key

- 1. D
- 2. C
- 3. T
- 4. D
- 5. C

6. If market price is \$3, the imposition of a price floor at \$5 would result in a surplus with  $Q_s > Q_d$ .



7. Both Market Supply and Market Demand have increased, however, the increase in Market Supply has been greater than the increase in Market Demand

