

**Quiz 3 – Microeconomics – EC 2106**

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

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

INSTRUCTIONS: Read each question carefully. Use the back of the quiz for extended answers.

Assumption 1: Assume that gasoline is a normal good and that the market for gasoline in Atlanta is in equilibrium and that the average price of gasoline in Atlanta is \$1.20 a gallon with a quantity of 12.5 million gallons demanded weekly.

1. Using Assumption 1, what would be the impact on market price and quantity, assuming all else remained equal, if the costs of refining petroleum into gasoline decreased and consumer income increased? 2 points

Assumption 2: Assume that Spam is an inferior good and that the market for Spam in Georgia is in equilibrium with the average price of Spam being \$3.40 a can with a quantity of 350,000 cans demanded monthly.

2. Using Assumption 2, what would be the impact on market price and quantity, assuming all else remained equal, if consumers' income increased and the government taxes on the producers of SPAM increased? 3 points

Assumption 3: Assume that in the City of Atlanta, the average rental price for a 900-square foot apartment is \$950 a month. To assist lower income individuals, the City of Atlanta is proposing to establish a maximum rent schedule such that the maximum allowable rent for a 900-square foot apartment would be \$1000.

3. Using Assumption 3, what impact would this proposal have on the market for 900-square foot apartments? 2 points
4. Assume that the maximum rent in Assumption 3 was \$500 a month, what impact would the proposal have on the market for 900-square foot apartments? 2 points
5. What concept is defined as the difference between what consumers are willing to pay for goods and what they actually pay in the market? 1 point

## Answer Key

1. The decrease in refining costs leads to an increase in Market Supply while the increase in Consumer Income leads to an increase in Market Demand. Since Market Demand and Market supply are both increasing, we know that price is the factor that will depend upon the magnitude of the shifts in Market Supply and Demand and that quantity is the known factor. Since both Market Supply and Demand are increasing, Market Quantity will also increase.
2. The increase in consumer income leads to a decline in Market Demand for SPAM since SPAM is assumed to be an inferior good. The increase on Government Taxes on Producers leads to a decline in Market Supply.. Since Market Demand and Market supply are both decreasing, we know that price is the factor that will depend upon the magnitude of the shifts in Market Supply and Demand and that quantity is the known factor. Since both Market Supply and Demand are decreasing, Market Quantity will also decrease.
3. Since the price ceiling is set above the market equilibrium price, it has no effect.
4. Since the price ceiling is set below the market equilibrium price,  $Q_d > Q_s$ , which results in a shortage.
5. Consumer Surplus