

Quiz 2 – Microeconomics – ECON 1B

Summer Quarter Cabrillo College

Instructor: Dr. Robert McNab

Name: _____

Score: _____

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

Assumption 1: Assume that gasoline is a normal good and that the market for gasoline in Santa Cruz is in equilibrium and that the average price of gasoline in Santa Cruz is \$1.80 a gallon with a quantity of 1.5 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 increased and consumer income increased? 2 points

Assumption 2: Assume that Spam is an inferior good and that the market for Spam in Santa Cruz 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 producers' expectations on SPAM sales in the future declined? 2 points

Assumption 3: Assume that in March 2000, the average price of gasoline was \$2.00 a gallon and 25,000 cars were sold in Santa Cruz. In April 2000, the average price of gasoline declined to \$1.90 a gallon and 25,500 cars were sold in Santa Cruz. In April 2000, personal income was \$22,000 and in May 2000 personal income rose to \$22,500 and 23,500 cars were sold.

3. What is the cross-price elasticity of demand for cars in Santa Cruz? 3 points

4. What is the income-elasticity of demand for cars in Santa Cruz? 3 points

Quiz 2 Answer Key Summer 01 Cabrillo

1. Cost of refining increase = decrease in supply
Consumer income increase, normal good = increase in demand

Price increase, quantity is dependent upon the shifts in supply and demand
2. Consumer income increase, inferior good = decrease in demand
Producers' expectations decline = decrease in supply

Quantity decrease, price is dependent upon the shifts in supply and demand
3. -0.386
4. -3.63