Recitation Session, Week: 1/18/09 – 1/24/09

Textbook, Ch2, p.43:

4. In the ancient country of Roma, only two goods, spaghetti and meatballs, are produced. There are two tribes in Roma, the Tivoli and the Frivoli. By themselves, the Tivoli each month can produce either 30 pounds of spaghetti and no meatballs, or 50 pounds of meatballs and no spaghetti, or any combination in between. The Frivoli, by themselves, each month can produce 40 pounds of spaghetti and no meatballs, or 30 pounds of meatballs and no spaghetti, or any combination in between.

a. Assume that all production possibility frontiers are straight lines. Draw one diagram showing the monthly production possibility frontier for the Tivoli and another showing the monthly production possibility frontier for the Frivoli. Show how you calculated them.

Answer:

b. Which tribe has the comparative advantage in spaghetti production? In meatball production?

Answer:

In A.D. 100 the Frivoli discover a new technique for making meatballs that doubles the quantity of meatballs they can produce each month.

c. Draw the new monthly production possibility frontier for the Frivoli.

Answer:

d. After the innovation, which tribe now has an absolute advantage in producing meatballs? In producing spaghetti? Which has the comparative advantage in meatball production? In spaghetti production?

Answer:

Textbook, Ch2, p.43:

6. Peter Pundit, an economics reporter, states that the European Union (EU) is increasing its productivity very rapidly in all industries. He claims that this productivity advance is so rapid that output from the EU in these industries will soon exceed that of the United States and, as a result, the United States will no longer benefit from trade with the EU.

a. Do you think Peter Pundit is correct or not? If not, what do you think is the source of his mistake?

Answer:

b. If the EU and the United States continue to trade, what do you think will characterize the goods that the EU exports to the United States and the goods that the United States exports to the EU?

Answer:

Textbook, Ch3, p.91:

12. The accompanying table gives the annual U.S. demand and supply schedules for pickup trucks.

Price of truck	Quantity of trucks demanded (millions)	Quantity of trucks supplied (millions)
$20,000	20	14
25,000	18	15
30,000	16	16
35,000	14	17
40,000	12	18

a. Plot the demand and supply curves using these schedules. Indicate the equilibrium price and quantity on your diagram.

Answer:

b. Suppose the tires used on pickup trucks are found to be defective. What would you expect to happen in the market for pickup trucks? Show this on your diagram.

Answer:

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c. Suppose that the U.S. Department of Transportation imposes costly regulations on manufacturers that cause them to reduce supply by one-third at any given price. Calculate and plot the new supply schedule and indicate the new equilibrium price and quantity on your diagram.

Answer:

Check Your Understanding 3-1 (p.71):

1. Explain whether each of the following events represents (i) a *shift of* the demand curve or (ii) a *movement along* the demand curve.

a. A store owner finds that customers are willing to pay more for umbrellas on rainy days.

Answer:

b. When XYZ Telecom, a long-distance telephone service provider, offered reduced rates on weekends, its volume of weekend calling increased sharply.

Answer:

c. People buy more long-stem roses the week of Valentine's Day, even though the prices are higher than at other times during the year.

Answer:

d. The sharp rise in the price of gasoline leads many commuters to join carpools in order to reduce their gasoline purchases.

Answer:

Check Your Understanding 3-3 (p.83):

1. In the following three situations, the market is initially in equilibrium. After each event described below, does a surplus or shortage exist at the original equilibrium price? What will happen to the equilibrium price as a result?

a. 2005 was a very good year for California wine-grape growers, who produced a bumper crop.

Answer:

b. After a hurricane, Florida hoteliers often find that many people cancel their upcoming vacations, leaving them with empty hotel rooms.

Answer:

c. After a heavy snowfall, many people want to buy secondhand snow blowers at the local tool shop.

Answer:

Study Guide:
Ex. 13, p.43

Suburbia has a production possibility frontier bowed out from the origin for the two goods, guns and butter, that Suburbia produces from its available resources and technology. The following table describes six points that lie on Suburbia's production possibility frontier.

Combination	Number of guns	Pounds of butter
A	0	80
B	10	75
C	20	65
D	30	50
E	40	30
F	50	0

Suppose Suburbia is initially producing at point D. What is the opportunity cost of moving to point B?
   a. 25 pounds of butter
   b. 20 guns
   c. 10 guns
   d. 75 pounds of butter

Study Guide:
Ex. 18, p.44

Suppose there are two countries, Texia and Urbania, that produce food and clothing and currently do not trade. Both countries have linear production possibility frontiers. Texia, if it devotes all of its resources to food production can produce 1,000 units of food this year and 0 units of clothing. If Texia devotes of all of its resources to clothing production this year, it can produce 500 units of clothing and 0 units of food. Urbania can either produce 500 units of food this year and 0 units of clothing, or it can produce 200 units of clothing this year and 0 units of food. _____ has the comparative advantage in the production of clothing and _____ has the comparative advantage in the production of food.

a. Texia; Texia   c. Urbania; Texia
b. Texia; Urbania   d. Urbania; Urbania