

Economics 231 Principles of Macroeconomics
Section 5
Spring 2010
Homework 1

Bill Polley

February 2010

Due date: Tuesday, Feb. 2, 2010 at the beginning of your section

10 points

1. [2 points] As you know, parking on campus is allocated on a first-come first-served basis. It has been said that a parking permit is like a hunting license. It permits you to park but does not guarantee a space. How would the parking situation on campus change if all parking was reserved and there was a market for reserved parking spaces? Would there be the positive and negative aspects of such a means of allocating this scarce resource?
2. [2 points] In Louisiana, florists must be licensed by the state. In many states auctioneers must be licensed as well. Barbers and beauticians are also often subject to licensing. Trade groups will usually say that these regulations are to insure quality. What else might be at work? Does this hurt consumers? How does it affect the market? (Use a supply and demand diagram to answer.)
3. [3 points] Consider the following demand and supply schedules for a certain good.

P	Qd	Qs
10	200	40
20	160	60
30	130	80
40	100	100
50	70	140
60	50	180
70	40	220
80	30	260

- (a) Draw a graph illustrating the situation. Show the equilibrium price and quantity on the graph.
- (b) Now suppose that disaster strikes the producers of this good. Half of their factories are unable to operate. This cuts the quantity supplied in half at every possible price. Show this in the graph.
- (c) What is the new equilibrium price and quantity?

4. [1 point] Suppose that new uses are discovered for corn. *Ceteris paribus* (other things being equal), what do you expect to happen to the price of soybeans. Explain with a supply and demand diagram for soybeans. (If you live in the Midwest, you should be able to explain why this question is not just idle speculation. This is real world economics!)
5. [1 point] Do “Challenge” problem #3 from page 50 (Why do stores have clearance sales?) Be brief but precise. The best answer only requires a sentence or two explanation. I will not give any hints.
6. [1 point] Suppose that a university spends a lot of money on “creature comforts” for students. The idea is to make college a more pleasant experience. Given that, and given that all other things are equal, what do you expect would happen to the average time to finish a degree? Explain.