

Poll 2

1. Assume that spaghetti is an inferior good for most people. As their incomes decrease, all other things held constant, the:
 - a) demand for spaghetti will decrease shifting the demand curve to the left.
 - b) demand for spaghetti will decrease shifting the demand curve to the right.
 - c) demand for spaghetti will increase shifting the demand curve to the left.
 - d) demand for spaghetti will increase shifting the demand curve to the right.
2. Suppose France can produce four phones or three computers with one unit of labor, and Sweden can produce one phone or two computers with one unit of labor. If France can trade only with Sweden, then the theory of comparative advantage suggests that:
 - a) France should specialize in producing phones and import computers from Sweden.
 - b) France should specialize in producing computers and import phones from Sweden.
 - c) France should produce both phones and computers, and import nothing from Sweden.
 - d) France should import both phones and computers from Sweden.

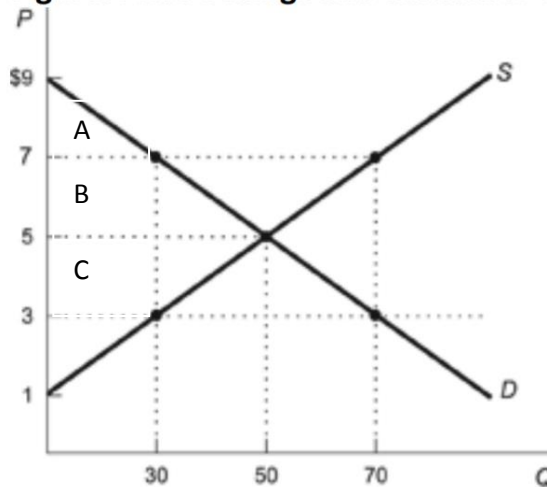
Table: Production Possibilities for the United States and Mexico

	Corn (millions of tons)	Potatoes (millions of tons)
United States	50	10
Mexico	40	5

3. (Table: Production Possibilities for the United States and Mexico) According to the table on Production Possibilities for the United States and Mexico, the United States has an absolute advantage in _____ and a comparative advantage in _____.
 - a) both goods; corn
 - b) both goods; potatoes
 - c) potatoes; corn
 - d) nothing; potatoes
4. (Table: Production Possibilities for the United States and Mexico) According to the table on Production Possibilities for the United States and Mexico, Mexico has an absolute advantage in _____ and a comparative advantage in _____.
 - a) neither good; corn
 - b) corn; potatoes
 - c) potatoes; corn
 - d) neither good; potatoes
5. (Table: Production Possibilities for the United States and Mexico) Using the table on Production Possibilities for the United States and Mexico, assume each country specializes in the good for which it has a comparative advantage. Which of the following answers identifies a trade price that both countries would find acceptable? (Units are in tons.)

- a) 0.2 potato for one corn < Trade price < five corns for one potato
- b) 0.125 potato for one corn, < Trade price < eight potatoes for one corn
- c) **five corns for one potato < Trade price < eight corns for one potato**
- d) 0.125 potato for one corn, < Trade price < five potatoes for one corn

Figure: Price Ceilings and Consumer Valuation



6. (Figure: Price Ceilings and Consumer Valuation) Refer to the figure. Suppose a price ceiling of \$3 goes into effect. If the goods sold are **allocated only to the highest value users**, the total consumer surplus in the market would be:
- a) \$180.
 - b) \$30.
 - c) \$120.
 - d) **\$150**

If the government could line up the high value buyers first before the low value buyer than a consumer surplus is the sum of areas A+B+C. Though this policy would ultimately defeat the common purpose of a price ceiling, which is to help low value buyers afford the product.

7. (Figure: Price Ceilings and Consumer Valuation) Refer to the figure. Suppose a price ceiling of \$3 goes into effect. If the goods sold are **randomly allocated**, the total consumer surplus in the market would be:
- a) \$180.
 - b) \$30.
 - c) \$120.
 - d) \$150

The answer is \$90 for this question. Forgot to include the answer choice and therefore will not be included as part of the score. Only Q1-Q6 will count.

The idea is that the price ceiling allows low value buyers to be able to buy the good, in this case as low as \$3. Since the highest value buyer (\$9) and the lowest value buyer (\$3) are competing to get the scarce resource. The range of buyer values is on the interval [\$3,\$9]. There is a 50-50

chance as to eventually is allocated the resource, so we take the midpoint of the price. The average price between \$9 and \$3 is \$6. The consumer surplus will be the rectangular box from the average price of \$6 to \$3 and the width would be 30.