Masaryk University – Brno

Department of Economics – Faculty of Economics and Administration

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BPE_MIC1 Microeconomics 1 – Fall Semester 2011

HOMEWORK ASSIGNMENT 1

Deadline to submit: 17.10.2011, 9:20 a.m. (in class)

Try to give direct and succinct answers to the questions!

Problem 1 (1 point)
Opportunity cost is what you give up to get an item. Since there is no such thing as a free lunch, what would likely be given up to obtain each of the items listed below?

a. (0.5 point) Susan can work full time or go to college. She chooses college.
b. (0.5 point) Farmer Jones has 100 acres of land. He can plant corn, which yields 100 bushels per acre, or he can plant beans, which yield 40 bushels per acre. He chooses to plant corn.

Problem 2 (1 point)
The following table provides information about the production possibilities frontier of Athletic Country.

Bats	Rackets
0	420
100	400
200	360
300	300
400	200
500	0

a. (0.25 point) Plot and connect these points in a 2-dimensional coordination system to create Athletic Country's production possibilities frontier.
b. (0.25 point) If Athletic Country currently produces 100 bats and 400 rackets, what is the opportunity cost of an additional 100 bats?
c. (0.25 point) If Athletic Country currently produces 300 bats and 300 rackets, what is the opportunity cost of an additional 100 bats?
d. (0.25 point) Why does the additional production of 100 bats in part (c) cause a greater trade-off than the additional production of 100 bats in part (b)?

Problem 3 (1 point)
Suppose that in a year a Czech worker can produce 100 litters of beer or 20 computers, while a Vietnamese worker can produce 50 litters of beer or 15 computers.

a. (0.5 point) Who has the absolute advantage in computers? Who has the comparative advantage in computers?
b. (0.5 point) If the two countries were open to trade which country would export beer? Explain in what price of computers (in terms of beer) they could trade?

Problem 4 (1 point)
Imagine you are watching an election debate on television. A candidate says, 'We need to stop the flow of Japanese cars into Europe. If we limit the importation of Japanese cars our domestic car production will rise and Europe will be better-off.'

a. (0.5 point) Is it likely that Europe will be better-off if EU limits Japanese car imports? Explain.
b. (0.5 point) In the real world, does every person in the country gain when restrictions on imports are reduced? Explain.

Problem 5 (1 point)
Suppose the demand curve for a product is Q = 60/P. Compute the quantity demanded at prices $1, $2, $3, $4, $5, $6.

a. (0.5 point) Graph the demand curve. Use the midpoint method to calculate the price elasticity of demand between $1 and $2 and between $5 and $6.
b. (0.5 point) How does this demand curve compare to the linear demand curve?