

Assignment #1

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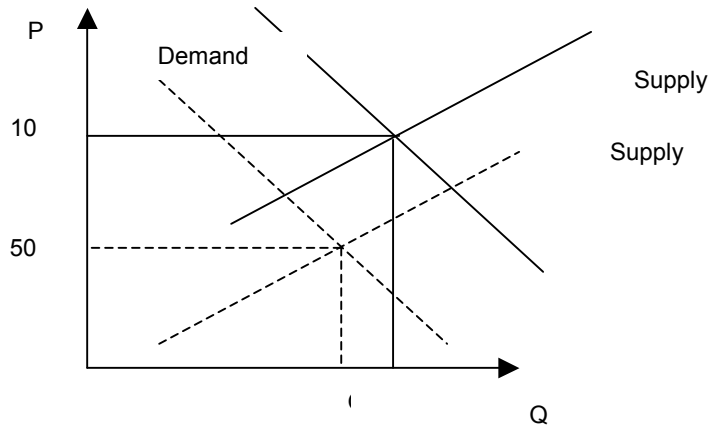
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Professor

1) In January 1998, in the middle of the ice storm, consumers were reporting price hikes for bread and milk, candles, chainsaws, firewood, flashlights, gas, power generators and propane. People in what came to be called the triangle of darkness south of Montreal, reported that the price of a cord of wood was around \$100, double its usual price.

a) Using supply and demand curves, explain the increase in the price of wood. Illustrate graphically.

Answer:



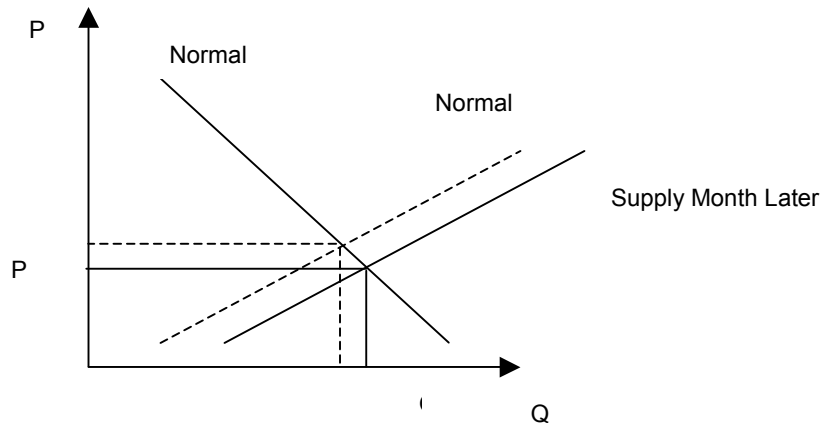
The supply curve was shifted on the left because in that period there is a scarcity of wood and if there was the possibilities to cut other wood all the input price was grown.

The demand curve was shifted to the right because change the people necessary for wood. The ice storm changed the amount of wood that people wanted to buy at any given price.

This two facture they change the equilibrium point and the price of wood increased.

- b) In the months following the ice storm, the damaged trees and branches were collected. How is this likely to influence the price of a cord of wood? Explain and illustrate graphically.

Answer:

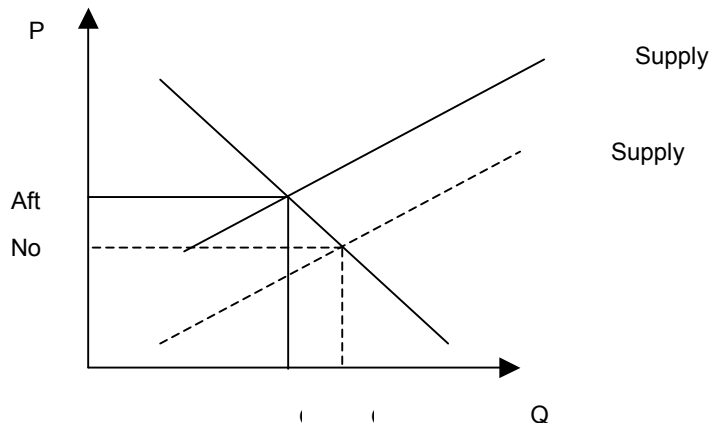


In the months following the ice storms, we had a lot of wood and this increased the supply that shifted our supply curve on the right change on the supply curve, because they have a lot of wood to sell and the price went down.

- 2) Supposed that recent storms in South America have significantly damaged this year's coffee bean crop. Illustrate and explain how this information will affect the demand, supply, quantity demanded, quantity supplied and price of following products:

- a) Coffee

Answer:

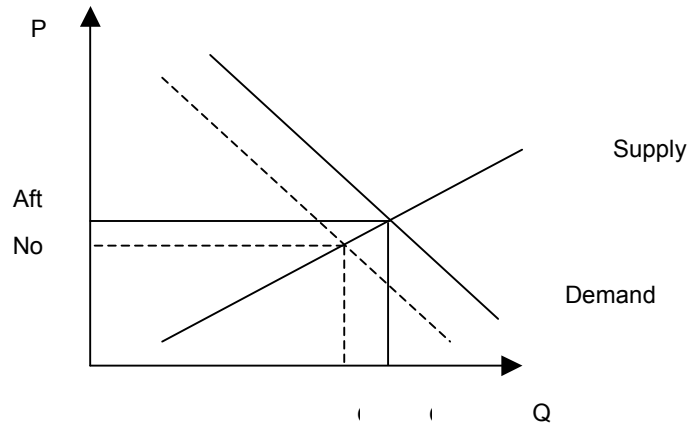


We have an external event that limit the supply of coffee that correspond to a shift of the supply curve on the left. This event it does not affect the demand curve, but it affect the quantity demanded because our goods is a normal good with an elastic elasticity.

This mean that if the price increase the quantity demanded decrease.

b) Tea

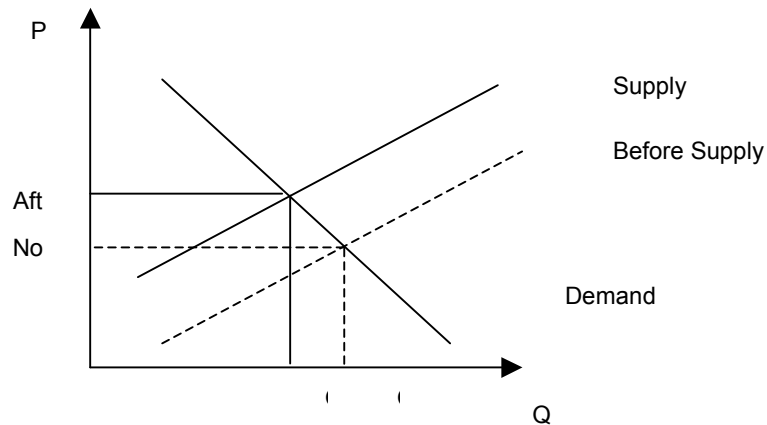
Answer:



We consider the tea a coffee substitute for this reason when we have an increase of price for the coffee this drive the people to buy more of substitute goods. The demand curve shift on the right , the quantity demanded increase, the quantity supplied its move along the curve the equilibrium price and the equilibrium quantity both rise.

c) Coffee flavoured ice-cream

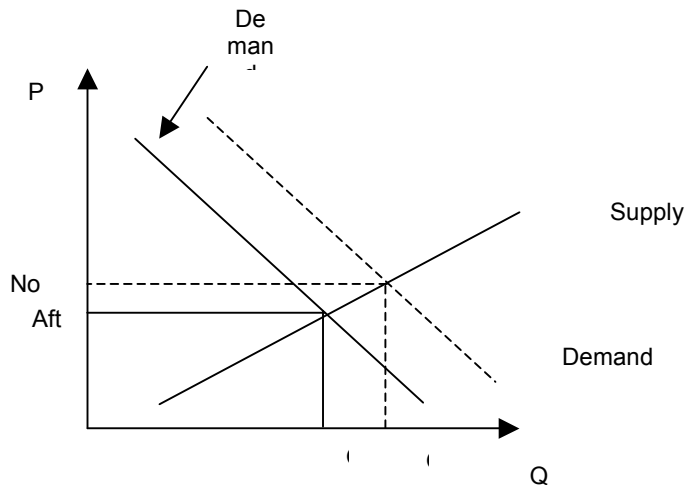
Answer:



The coffee is an input of the coffee flavoured ice-cream. When the price of coffee rise the sellers of the coffee flavoured ice cream are oblige to increase the price. This shift the supply curve on the left. The quantity demanded its decrease and we have a new equilibrium of supply and demand.

d) Coffee cream

Answer:



The coffee cream is a complementary of coffee for that reason if we have a decrease of coffee sells we have a shift for the demand curve on the left. This shift change our quantity demanded and quantity supplied.

3) IBM has determined that at current prices the demand for its desktop computers has a price elasticity of -2.0 , while the cross-price between its desktop computers and laptop computers is 0.8 . IBM decides to raise the price of its desktop products by 10% .

a) What percent change will occur in quantity demanded of desktop computers?

Answer:

For an increase of price of 10% for the desktop we have a decrease of 20% of sells.

b) What percent change will occur in quantity demanded of laptop computers?

Answer:

For an increase of price of 10% for the desktop we have an raise of 8% of notebook sells.

c) Would total revenue from desktop computers increase? Explain.

Answer:

The revenue of desktop it decrease. Because we have an elasticity greater then 1 and our good is a normal good for that reason for any increase of price we have a biggest reduce of quantity sold.

d) Would total revenue from laptop computers increase? Explain

Answer:

The total revenue of notebook increase. Because for the same price the quantity sold is more.

4) A subsidy is the opposite of a tax. With a \$ 0.50 subsidy for the buyers of ice-cream cones, the government pays buyers \$0.50 for each cone purchased. Show the effect of a \$0.50 per cone subsidy on the demand curve, the price paid by buyers, the price received by sellers and the quantity of the cones sold.

Answer:

For the buyers the cones its costs \$ 0.50 less, for that reasons the buyers will demand more quantity and will spend the almost the same amount of before, probably not exactly the initial amount but probably a little bit less plus the subsidy. This mean that the supply it will be motivated to increase the production.

We have a movement along the supply and the demand curve.

At the end the buyers they will spend almost the same amount but they will buy more ice-cream.

