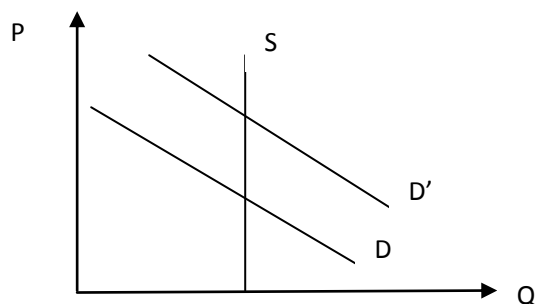


Exam1_ Answer Guidance for some questions (Not Answers!)

There are several versions of the exam problems, but in essence they are the same, so this answer guidance will mainly focus on one of the versions.

1. Housing in Manhattan: using supply and demand analysis to explain how declining crime rates in Manhattan can make residents in other neighborhoods worse off.



Compared with demand, supply is relatively constant because the housing supply can't increase in a short time (It is OK if you don't draw a vertical supply curve.). As crime rate comparatively low in Manhattan, more people tend to move there thus put the demand there upward. Thereby, the rent goes up. Some people who previously live in Manhattan can't afford that high rent (due to their fixed salary, wealth, etc.), then they will move out and search for the housing nearby. Thus in turns put the housing demand in other neighborhoods upward, which causes the rents there upward, too. Thereby, the residents in other neighborhoods worse off.

2. Analyze the statements.

- a. A decrease in income leads to an increase in the demand for a complement good.

This question is wrong. In fact, "complement" should be corrected to "inferior", then the statement is wrong.

- b. A consumer receives a 10% pay raise and their demand for beef jerky's decreases.

If you assume beef jerky is an inferior good, then the statement is correct. Otherwise, it is wrong.

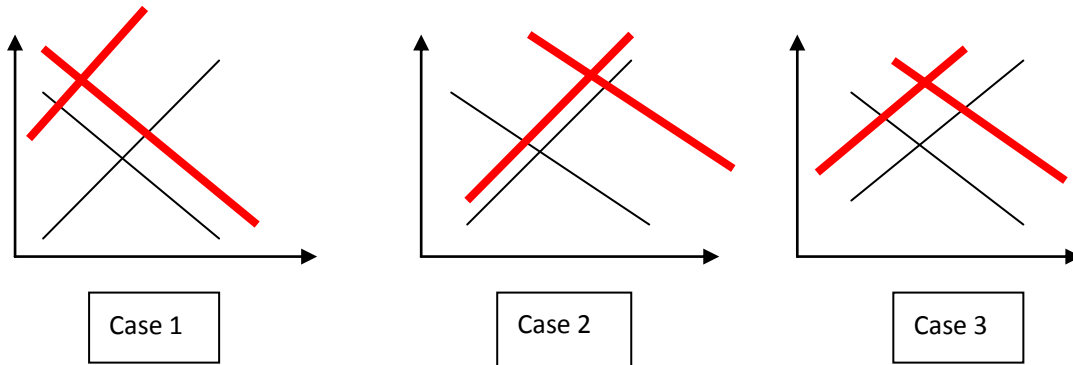
3. Cranberry juice: new discovery v.s. forest fires

Any time when there are both changes in supply and demand, we need to be clear that there shall be three cases in supply and demand analysis.

Case 1: supply moves more than demand

Case 2: supply moves less than demand

Case 3: supply moves as the same as demand does



4. Definitions

Check your notes.

5. Market for burritos

- a. Check your study guide and notes
- b. Check your study guide and notes
- c. If an excise tax of \$2.00 is levied on the supplier:

Supply changed: $Q_s = 100 + 100(P - 2)$

Demand unchanged: $Q_d = -40P + 800$

- d. If an excise tax of \$2.00 is levied on the consumers:

Supply unchanged: $Q_s = 100 + 100P$

Demand changed: $Q_d = -40(P + 2) + 800$

There is another version of exam questions.

1. Super Bowl tickets

- a. The existence of scalping implies that the official price P_0 can't provide enough supply. Since equilibrium price P_E will always provide proper supply that matches demand, i.e., no shortage and no surplus, we can infer that $P_0 < P_E$.
- b. The average black market price is essentially the equilibrium price which will not be changed by the official price. Only the increase/decrease in supply or demand may change the equilibrium price.
- c. If there is a stiff penalty imposed on scalpers, some of them will stop providing the tickets because they are afraid of penalties. Therefore, the supply will decrease but the demand is still the same. Then the equilibrium price will go upward, i.e. the average black market price will be increased.