

Assignment 1

Assigned on Feb 17th, 2022. To be submitted on Feb 26th, 2022 before midnight

Instructions

- (1) Please read the instruction carefully. Also take this habit with you into the exam room.
- (2) Please read each question carefully and answer the questions straightforwardly. Always provide economic reasons at least a paragraph for your analysis, or a graph when necessary, even when the question does not indicate so.
- (3) Handing and submitting assignments are only available via BE Moodle.

Answering the questions and preparing answer sheets

- (1) Answers are to be handwritten, in either digital or analog form, in a blank canvas or any clean paper. Make sure that your handwriting is clearly visible and readable.
- (2) There is no need to rewrite the question. Just indicate the question number clearly for each of the answer, such as 1.a).
- (3) When done, for the digital case, collage all the pages into a single PDF file. For those who write on sheets of paper, take photo of all pages then convert all of them into a single PDF file as well.
- (4) Name your PDF file as StudentID_YourNickname, such as 640123456_Bo.

Submitting your answers

- (1) Make sure your file does not exceed 10MB. This is the maximum file size for BE Moodle upload.
- (2) Login to BE Moodle, head into the course, then the assignment topic.
- (3) Choose your file to submit. Done. There will be timestamp for your upload date and time, so please make sure to not submit later than that.

1. A human civilization finds a new wood source of total 120 units. Wood can either be used to produce spear or bow for hunting. A wood master then calculates that in order to produce a spear, it takes 4 units of wood while 3 units for a bow. Answer the following questions.

1.a) Assumed that the opportunity cost of using this 120 units of wood to produce the products is constant, draw a production possibility curve (PPC), displaying quantity of spear on the vertical axis and quantity of bow on the horizontal axis, and indicate all the essential details in the graph and explain.

1.b) How much is the opportunity cost for a spear, in terms of bow? Show how you calculate this figure.

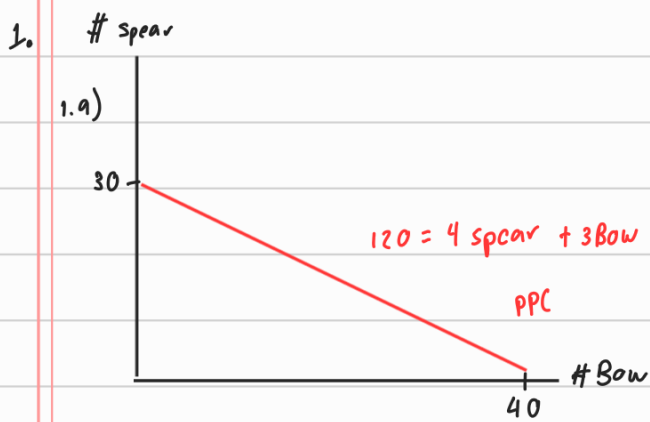
1.c) With this newly found resource, is it possible for this civilization to produce 20 spears and 12 bows? If it is, is this option efficient? Display this option on a graph from (a) and explain.

1.d) If a new method of making bow is discovered and requires only 1.5 units of wood for each bow, how does it affect the PPC and the opportunity cost for a spear? Illustrate the change and explain.

2. Few years ago, the MRT Purple Line electrical train opened to the public but with unexpected low ridership, the operator of MRT decided to lower the fare from 42 to 29 baht per trip. As a result, the number of passengers increased from 20,000 to 21,000 commuters.

2.a) What is the price elasticity of demand for MRT Purple Line? Show your work.

2.b) If the MRT operator decides to reduce the fare even further from 29 to 15 baht per trip. Do you think this price-reduction strategy will help increasing total revenue of MRT Purple Line? Give a clear explanation with support of a diagram.

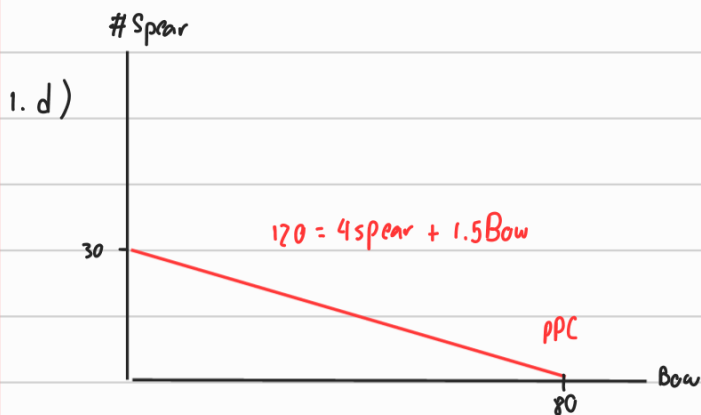
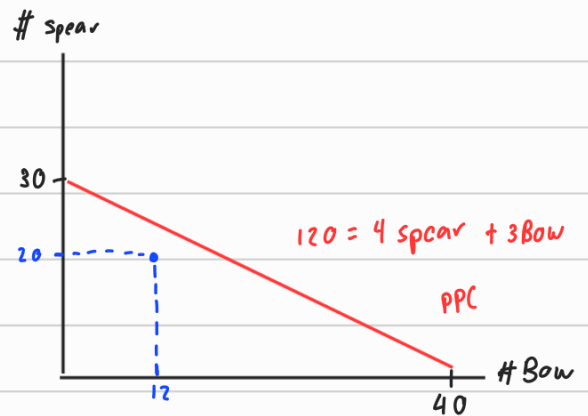


1. b) The opportunity cost in producing 1 spear is = $\frac{\text{spear}}{\text{bow}}$
 $= \frac{4}{3} \approx 1.33 \text{ bow}$

\therefore The opportunity cost in producing a spear is that we lost 1.33 bow.

1. c) $4(20) + 3(12) = 80 + 36 = 116$

\therefore It is possible to produce 20 spears and 12 bows but it is not efficiency because there are some left resource.



As you can see from the graph the PPC is quite flatter because the woods that use in producing a bow is lesser than before which it lead to bow the we can produce more bow compare from before.

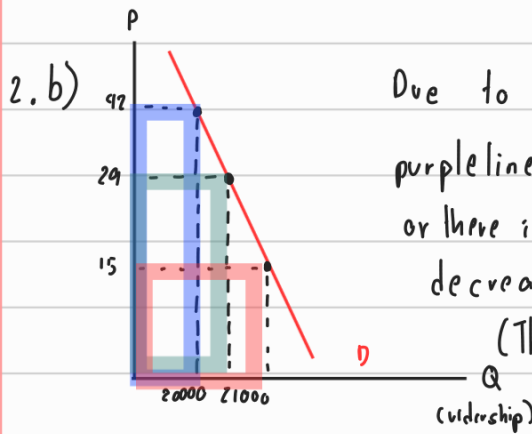
in the other hand with the opportunity cost in producing a spear is bigger
 \therefore In producing 1 spear we must sacrifice $\frac{4}{1.5} \approx 2.66$ bows.

2.

$$2.a) \text{ Price Elasticity} = \frac{P_1}{Q_1} \cdot \frac{\Delta Q}{\Delta P} = \frac{P_1}{Q_1} \cdot \frac{Q_2 - Q_1}{P_2 - P_1} =$$

$$= \frac{42}{20000} \cdot \left(\frac{21000 - 20000}{29 - 42} \right) = -0.16$$

$\therefore |E_d| < 1$ \therefore The price elasticity of Demand for MRT purple line is relatively inelastic.



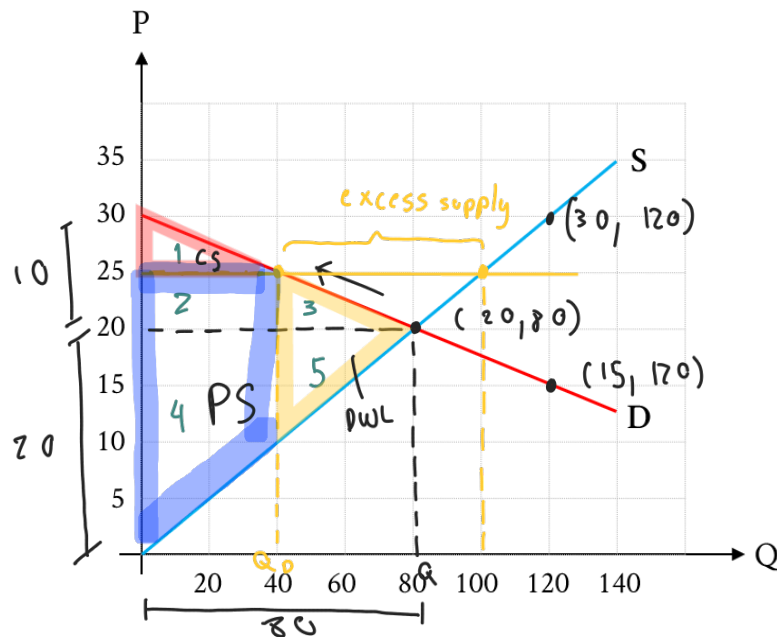
Due to the reason that the demand of MRT purple line is relatively inelastic (the necessity is high or there is not much substitutable service), When the price decrease, the total revenue will also be decrease.

(The relation between Price and total revenue is direct variation, $P \propto TR$).

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3. Assumed that a headphones market is perfectly competitive, demand and supply for headphones are illustrated in the graph below. Answer the following questions.



- 3.a) Calculate price elasticity of demand and price elasticity of supply at the equilibrium price.
- 3.b) Calculate both consumer and producer surplus at the socially optimum price and quantity.
- 3.c) Now supposed that all the producers collude and become a monopoly, they can charge the price at \$25. Consequently, total quantity in this headphones market becomes 40 pairs. Discuss the change in both consumer surplus and producer surplus.
- 3.d) Is there any deadweight loss due to the collusion? If there is, how much is it?

3.

$$3.a) \text{ Price elasticity of demand} = \varepsilon_d = \frac{P_1}{Q_1} \cdot \frac{\Delta Q}{\Delta P} = \frac{P_1}{Q_1} \cdot \frac{Q_2 - Q_1}{P_2 - P_1}$$

$$\varepsilon_d = \frac{20}{80} \cdot \frac{120 - 80}{15 - 20} = \frac{1}{4} \cdot \left(\frac{-40}{5} \right) = -2$$

$$\text{Price elasticity of supply} = \varepsilon_s = \frac{P_1}{Q_1} \cdot \frac{\Delta Q}{\Delta P} = \frac{P_1}{Q_1} \cdot \frac{Q_2 - Q_1}{P_2 - P_1}$$

$$= \frac{20}{80} \cdot \frac{120 - 80}{30 - 20}$$

$$= \frac{1}{4} \cdot \left(\frac{40}{10} \right) = 1$$

$$3.b) \text{ consumer surplus} = \frac{1}{2} \cdot 10 \cdot 80 = 400$$

$$\text{Producer surplus} = \frac{1}{2} \cdot 20 \cdot 80 = 800$$

3.b) According to this situation, there are a monopoly in the headphone market which make them can set the price of the headphone at \$25. There are some alteration in both of the surplus, consumer surplus is smaller (due to higher price) and producer surplus is bigger (due to higher price)

. At the end this situation will have an excess supply (if there is no intervention.)

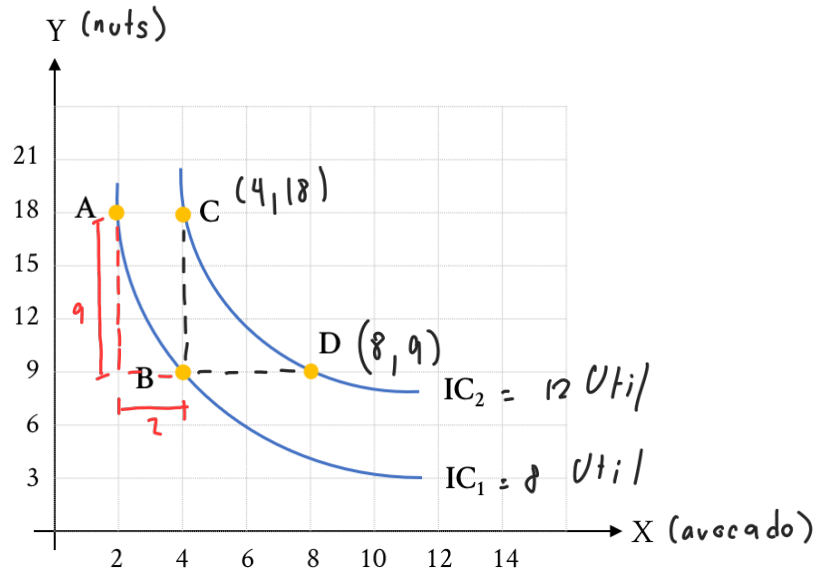
3.c) There are dead weight loss due to the collusion the amount is

$$DWL = \frac{1}{2} \cdot 15 \cdot 40 = 300 \text{ \#}$$

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4. A consumer finds that for him/her avocado (X) and nuts (Y) are substitutes. Assumed that this consumer yields 8 and 12 utils on IC1 and IC2 respectively, show your work and answer the following questions.



- 4.a) Measured from point A to B, assumed P_y is 10 baht per unit, how much P_x must be to make you conclude that the consumer's equilibrium is on point B?
- 4.b) Measured from point A to B, assumed P_x is 180 baht per unit, how much budget does this consumer has to achieve the equilibrium on point B?
- 4.c) Measured from point C to point D, how much is the average marginal utility per unit of avocado?
- 4.d) Show that this consumer's utility received from consuming avocado is in accordance with the law of diminishing marginal utility, using any essential information from any point. (But highly recommend that you consider all the points)

4.

4.a) Consumer's equilibrium = $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$

$$\left| \frac{\Delta y}{\Delta x} \right| = \frac{MU_x}{MU_y} = \frac{P_x}{P_y}$$

$$\frac{18-9}{4-2} = \frac{P_x}{10}$$

$$P_x = \left(\frac{9}{2}\right)(10) = 45$$

4.b) $P_x = 180$, Find P_y first; slope = $\frac{9}{2}$

Find $P_y \rightarrow$

$$\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$$

$$\frac{9}{2} = \frac{180}{P_y} \Rightarrow P_y = 40$$

From $I = P_x \cdot x + P_y \cdot y = 180(4) + 40(9)$
 $I = 720 + 360 = 1080 \neq$

4.c) $|MAS_{xy}| = \left| \frac{\Delta y}{\Delta x} \right| = \left| \frac{9-18}{8-4} \right| = \left| -\frac{9}{4} \right| = \frac{MU_x}{MU_y} \Rightarrow MU_y = \frac{4}{9} MU_x$
 \uparrow
 $IC_2 (c \rightarrow D)$

At Point D(8, 9) $TU = 12 = MU_x \cdot x + MU_y \cdot y$
 $12 = MU_x \cdot 8 + \left(\frac{4}{9} MU_x\right) 9$
 $12 = 12 MU_x$
 $MU_x = 1 \neq$

4.d) Consider on IC_1 and IC_2

IC_1 from A to B this consumer is willing to give up 9 nuts for 2 avocados (from 2 to 4 units), consuming up to 4 avocados

IC_2 from C to D this consumer is willing to give up for 4 avocados (from 4 to 8 units), now consuming up to 8 avocados

Since MU_y from 9 to 18 units have to equal on both IC_1 and IC_2 , we can see that this consumer requires more and more avocados to maintain the same amount of utility

As the law of diminishing MU stated that MU from consuming a product diminish as the consumer keep consuming it.