B.E. International Program

Faculty of Economics, Thammasat University

EE 211 PRINCIPLES OF MICROECONOMICS
SEMESTER 1/2011
PROBLEM SET 1

1. "Warren Buffett is one of the world's wealthiest men, worth billions of dollars. For someone like Buffett, the principle of opportunity cost simply does not apply". Agree or Disagree? Discuss.

2. Why a demand curve is downward sloping? Distinguish the difference between "*an increase in quantity demanded*" and "*an increase in demand.*" Indicate all possible factor(s) that might cause each of the two changes.

3. What is the importance of saying or writing 'ceteris paribus' in economic theory?

4. Why do the prices of some goods, like air plane tickets, go up during the months of heaviest consumption, while others, like mangos, go down?

5. What would happen to the equilibrium price and quantity in the new car market if both of the following events occur: (i) price of gasoline continues to rise and (ii) general consumers expect that economy would get back to the right track very soon?

6. Suppose the demand curve for a product is given by $Q = 300 - 2P + 4I$, where I is average income measured in thousand of dollars. The supply curve is $Q = 3P - 50$.
   a) If I = 25, find the market-clearing price and quantity for the product.
   b) If I = 50, find the market-clearing price and quantity for the product.
   c) Draw a graph to illustrate your answers.

Row, row, row your boat,
Gently down the stream.
Merrily, merrily, merrily, merrily,
Life is but a dream.

Learning is like rowing upstream: not to advance is to drop back.
~Chinese Proverb~