B.E. International Program

Faculty of Economics, Thammasat University

EE211: Principles of Microeconomics, Semester 1/2014

Problem Set 2

Instructions

1) To complete the homework assignment, you are allowed to discuss the problems with your colleagues but have to write up solutions completely on your own. **Copying is plagiarism and will be treated as an honor code violation**.

   More information: http://www.plagiarism.org/plagiarism-101/types-of-plagiarism/

2) Do all works with your handwriting.

3) The date of submission is on Tuesday 30th September 2014 in the class (**before the lecture starts**)

4) If you have questions, please send us your message at : thanetm@gmail.com or pwrasai@gmail.com

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1.) Suppose that the price of basketball tickets at your college is determined by market forces. Currently, the demand and supply schedules are as follows:

Price ($)	Quantity demanded	Quantity supplied
2	1,000	200
4	800	400
6	600	600
8	400	800
10	200	1,000

a.) Draw the demand and supply curve.

b.) What are the equilibrium price and quantity of tickets?

c.) Your college plans to increase total enrollment next year. The additional students will have following demand schedule:

Price ($)	Quantity demanded
2	400
4	300
6	200
8	100
10	0

Now add the old demand schedule and new demand. What will be the new equilibrium price and quantity?

2.) Suppose that business travelers and vacationer shave the following demand for airline tickets from New York to Boston:

Price ($)	Quantity demanded (Business)	Quantity demanded (vacationers)
150	2,100	1,000
200	2,000	800
250	1,900	600
300	1,800	400

a.) As the price of tickets rises from $200 to $250, what is the price elasticity of demand for business and vacationers? (Use midpoint method in your calculation)

b.) Due to elasticity in a.) if price change from $200 to $250, how much quantity of demand changed for both business and vacationers and who change more? Why? Please use elasticity to proof it

3.) Suppose that price of a bottle of drinking water at university is determined by market forces. Currently, the demand and supply schedules are as follows:

Price ($)	Quantity demanded	Quantity supplied
4	10,000	2,000
8	8,000	4,000
12	6,000	6,000
16	4,000	8,000
20	2,000	10,000

a.) Draw the demand and supply.

b.) What are the equilibrium price and quantity?

c.) Suppose that producer discover a new technology that increases productivity of production process. What will happen to equilibrium price and quantity? And how consumers' and producers' surplus change? (Illustrate in new graph with explanation)

d.) Suppose that parents of all students has to pay more tuition fee which means that students would get less money, what will happen to equilibrium price and quantity? And how consumers' and producers' surplus change?(Illustrate in new graph with explanation)

e.) Suppose that price is increased from $12 to $16. What is elasticity of demand? And what will happen to consumers' surplus? By how much? (Use midpoint method in your calculation)

What I hear, I forget.
What I see, I remember.
What I do, I understand.
- Kung Fu Tzu (Confucius)