

ECO 201-02
Spring 2011
Homework I
Rusty Smith

This assignment is due January 26, 2011

You will find the "Supply and Demand" study guide on my website most helpful in completing this assignment. Do not complete this assignment on this sheet, use separate paper.

1. Define marginal cost and marginal benefit. In addition, also address the following:
 - Explain how these concepts are used in marginal analysis and give a theoretical "real life" example.
 - Next describe the problem of imperfect information and describe the impact it has on decision making.
 - Finally, explain why people will spend much time gathering information when making some decisions, but will spend very little or no time gathering information when making other decisions.
2. Examine the following production possibilities table and answer parts "a" and "b" on the basis of it.

Chainsaws	150	140	120	90	50	0
Marshmallows	0	10	20	30	40	50

- a. What is the opportunity cost of chainsaws in terms of marshmallows when chainsaw production is increased from 90 to 120?
- b. What is the opportunity cost of chainsaws in terms of marshmallows when chainsaw production is increased from 120 to 140?
- c. Compare your answer from part A to part B. Why are the opportunity costs different? What does this imply about the resources used to produce chainsaws and marshmallows?
3. Explain the difference between a change in demand and a change in quantity demanded.
4. Explain the difference between a change in supply and a change in quantity supplied.
5. List and explain the non-price determinants of demand. For each of the determinants give one example that will increase demand and one example that will decrease demand.
6. List and explain the non-price determinants of supply. For each of the determinants give one example that will increase supply and one example that will decrease supply.

7. Draw an individual supply and demand graph for each part below. Be sure to indicate in each instance what happens to price and what happens to quantity. (Hint: This is supply **AND** demand, so initially draw both curves to show original price and quantity.)
- a) Increase in demand, no change in supply.
 - b) Decrease in demand, no change in supply.
 - c) Increase in supply, no change in demand.
 - d) Decrease in supply, no change in demand.
 - e) Increase in demand, increase in supply.
 - f) Increase in demand, decrease in supply.
 - g) Decrease in demand, increase in supply.
 - h) Decrease in demand, decrease in supply.