

Problem Set Three

Name _____

Chapter 4

4. Is the demand for a particular brand of car, like a Chevrolet, likely to be more or less price-elastic than the demand for all cars? Explain.

5. Among the following groups – senior executives, junior executives, and students – which is likely to have the most and which is likely to have the least price-elastic demand for membership in the Association of Business Professionals?

6. A 2 percent increase in the price of milk causes a 4 percent reduction in the quantity demanded of chocolate syrup. What is the cross-price elasticity of demand for chocolate syrup with respect to the price of milk? Are the two goods complements or substitutes?

8. Suppose that the ingredients required to bring a slice of pizza to market and their respective costs are: paper plate, 2 cents, flour 8 cents, tomato sauce 20 cents, cheese 30 cents, and labor 60 cents (3 minutes @ \$12/hour). If these proportions remain the same no matter how many slices are made, and the inputs can be purchased in any quantities at these stated prices, draw the supply curve of pizza slices and compute its price elasticity.

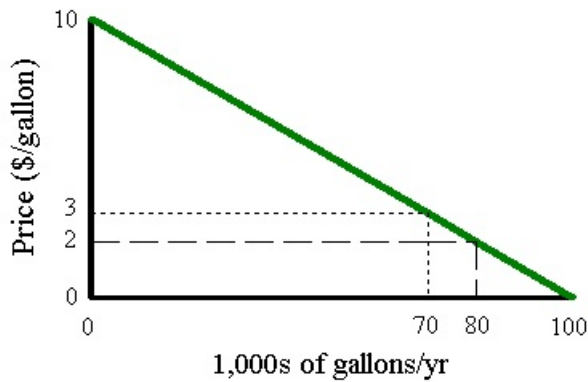
Chapter 5

2. You are having lunch at an all-you-can-eat buffet. If you are rational, what should be your marginal utility from the last morsel of food you swallow?

3. Martha's current marginal utility from consuming orange juice is 75 utils per ounce and her marginal utility from consuming coffee is 50 utils per ounce. If orange juice costs 25 cents per ounce and coffee costs 20 cents per ounce, is Martha maximizing her total utility from the two beverages? If so, explain how you know. If not, how should she rearrange her spending?

5. Sue gets a total of 20 utils per week from her consumption of pizza and a total of 40 utils per week from her consumption of yogurt. The price of pizza is \$1 per slice, the price of yogurt is \$1 per cup, and she consumes 10 slices of pizza and 20 cups of yogurt each week. Is Sue maximizing her utility? If so, explain how you know. If not, how should she rearrange her spending?

7. For the demand curve shown, find the total amount of consumer surplus that results in the gasoline market if gasoline sells for \$2 per gallon. Find the total amount of consumer surplus if gasoline sells for \$3 per gallon and the change in consumer surplus.



On my honor, as an Aggie, I have neither given nor received unauthorized aid on this assignment.

Signature _____