Taylor Chapter 7 Assignment

1. Who wrote *Wealth of Nations*?
2. Define what Smith meant by people being guided by the invisible hand.
3. What do consumers attempt to maximize?
4. What do firms try to maximize?
5. Draw the competitive equilibrium model.
6. What does it mean if two things, or forces, are in equilibrium?
7. In economics what is a market?
8. What is marginal benefit?
9. How is the demand curve for a product determined?
10. How is the supply curve for a product calculated?
11. Price will always be on which axis?
12. Price will always be on which axis?
13. Why is equilibrium price the result of examining utility and profit maximizing supply and demand curves?
14. Using the middle graph of Figure 7.2, what happens if the price is $1.40?
15. Using Q_s and Q_d explain what a surplus tells us about a market.
16. Using Q_s and Q_d explain what a shortage tells us about a market.
17. Define double-action market.
18. Define consumer surplus.
19. Define producer surplus.
20. Using Table 7.1 "Buyer Sheet" how many items would be purchased if the price is $12?
21. Using Table 7.1 "Seller Sheet" how many items would be sold if the price is $9?
22. What is the difference between efficient and inefficient?
23. Compare and contrast efficient and Pareto efficient.
24. Explain why MC=MB must be true for efficiency.
25. Identify and explain the second condition needed for efficiency.
26. Identify the third condition for needed for efficiency.
27. In trying to decide how much of an item to consume, how does a consumer arrive at a particular amount?
28. How do firms decide how much to produce?
29. What type of market is MB=MC the measurement of efficiency?

Use the Supply and Demand curve below to answer Questions 30-35

30. What is the equilibrium quantity?
31. Identify the market clearing price.
32. Describe what happens with an effective price ceiling of $8?
33. Describe what happens if the price ceiling is $12
34. With a $9 price floor what will happen in the market?
35. With an $11 price floor what will happen in the market?
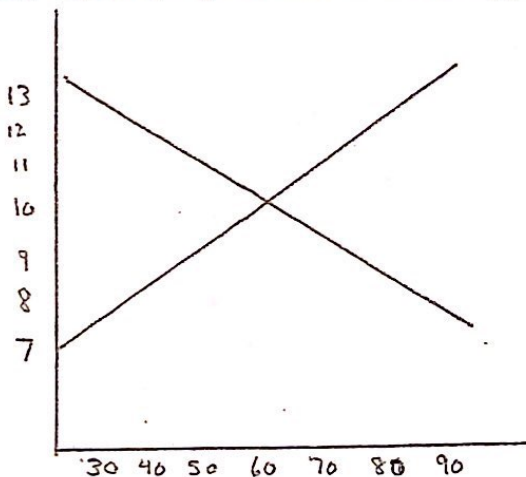
36. Define the First Theorem of Economics.

Use the figure below to answer Questions 37-40
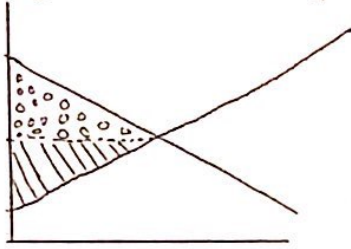
37. What area is represented with polka dots?
38. Why does this area exist?
39. What does the area with diagonal lines represent?
40. Why does this area exist?
41. Explain what happens in the Top Curve of Figure 7.7 and why it isn't efficient.
42. Why are C and D deadweight loss in the bottom of Figure 7.7?
43. What results from inefficiency in the market?
44. In Figure 7.9 what shape represents the loss of consumer surplus resulting from the price floor?
45. Draw a graph that shows a market in balance with specific numbers for some product. Be sure to use all appropriate labels.
46. Show any effects a $4 tax per unit would have on your curve by drawing the old curve with the new changes.
47. Shade the area of deadweight loss, use an arrow along the horizontal axis to show effect on Q_d, use an arrow along the vertical axis to identify change in price, indicate both consumer and producer surplus.
48. Compare and contrast *ad valorem* and specific tax.
49. Why does the supply curve shift due to the addition of a tax?
50. In using Figure 7.10 explain why the increase in price doesn't equal the cost of the tax increase.
51. Deadweight loss results in three quantities decreasing?
52. Why are competitive markets that are Pareto efficient the optimal market condition?
53. Do problem #1 on page 192.
54. Do problem #3 on page 192.
55. Do problem #6 on page 192.
56. Do problem #7 on page 192.