

**Participation Homework #3 (\$6,000): Due Thursday, October 10<sup>th</sup> by the end of your scheduled section.**

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**Section 004**

**Directions: All homework answers MUST be TYPED. NO EMAIL SUBMISSIONS. The homework is collected in class. If you can't be in class then send your homework with a friend or turn it in early by sliding it under my door (306 Kern) with your name and section time clearly marked. NO late homework is accepted.**

**Reminder: You may work in groups but you must write up you own unique responses. You may ask questions about the homework on the Facebook group – however, DO NOT SIMPLY ask what the answer is. Explain what you think the answer is and your logic/reasoning, so that someone else can provide real help.**

**Graphs may be hand drawn provided they are neat. Please include all relevant labels & arrows.**

<b>Monthly Rent</b>	<b>Quantity Demanded</b>	<b>Quantity Supplied</b>
\$250	520	220
\$300	370	270
\$350	300	300
\$400	220	380
\$450	180	450

**(1) The community you live in decides to enact a rent control of \$250 (**\$250 is the price ceiling-max price can be sold for**) per month on every one bedroom apartment.**

a) Using the table above, determine the market price and equilibrium quantity without rent control. (\$500)

The market price is \$350 and the equilibrium quantity is 300

b) How many one-bedroom apartments will be rented after the rent control law is passed? (\$500)

220 one-bedroom apartments will be rented after the rent control law is passed.

**(2) Imagine a city council decides that the market price for renting apartments is too high and passes a law that establishes a price ceiling of \$600 per month. The result of the price ceiling is a shortage caused by:**

(a) Both suppliers and demanders. Landlords will cut the supply of apartments and the demand from renters will increase.

(b) The spike in demand from many students who want to rent cheap apartments.

(c) The drop in supply caused by apartment owners pulling their units off the market and converting them into condos for sale.

(d) The price ceiling set by the city council.

**Explain your answer in 2-3 sentences (\$1,000)**

The Answer is d. A, b and c are all results of the price ceiling set itself, not what caused the shortage. The shortage is caused by the actual price ceiling set by the city council and the effect is everything that happened because of it, choices a, b and c.

**(3) Suppose that fans of Avicii persuade U.S. Congress to impose a price ceiling of \$25 for every Avicii concert ticket. Would this policy influence the number of people who attend his concerts in America? Explain your answer in 2-3 sentences (\$1,000)**

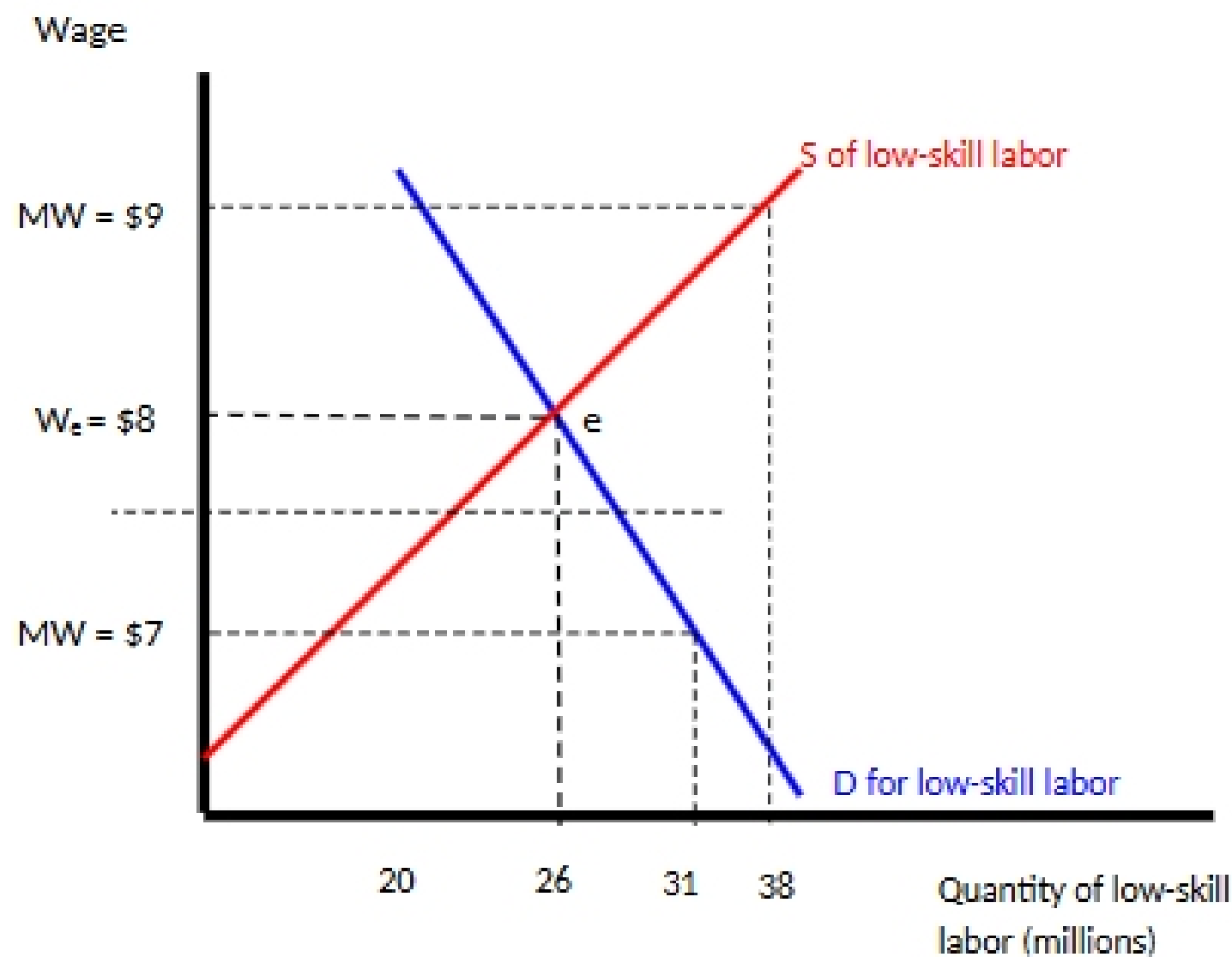
By imposing a price ceiling of \$25 for every concert ticket, Avicii would be less willing to supply his fans because he would be profiting less. Ultimately he would supply fewer concerts to America because he will have a less incentive to perform there. This would in the end lower the number of concerts there are in America and decrease the number of people who attend them.

**(4) Fair trade coffee is sold through organizations that purchase directly from the growers. The coffee is usually sold for a higher price than standard coffee. The goal of fair trade coffee is to promote more humane working conditions for the coffee pickers and growers. Fair trade coffee has become more popular but accounts for a small portion of all coffee sales, in large part because fair trade coffee is substantially more expensive to produce.**

**Suppose that proponents of fair trade coffee successfully lobby Congress to impose a price floor of \$15 (minimum price it could sell for) for every pound of coffee that is sold. Assume that standard coffee sells at an equilibrium price of \$10 per pound while premium coffee sells for \$30 per pound. Will this policy cause more or fewer people to buy fair trade coffee? Explain your answer in 2-3 sentences (\$1,000)**

Assuming people are sympathetic towards the workers working conditions, more people will buy fair trade coffee because the gap between the price of standard coffee and the price of fair trade coffee is smaller when you impose a price floor of \$15. The floors effect on premium coffee is non-binding, which means it will have no effect on the market or the people buying fair trade.

(5) Examine the following graph.



- How many laborers will be unemployed when the minimum wage is \$9 an hour? (\$500)  
 $38 - 20 = 18$ . There will be 18 laborers unemployed when the minimum wage is \$9 an hour.
- How many workers will be unemployed when the minimum wage is \$8 an hour? (\$500)  
 0 workers will be unemployed when the minimum wage is \$8 an hour

(6) Consider a market with demand & supply functions:

$$Q_d = 20 - 4P$$

$$Q_s = 2 + 2P.$$

Assume the market price is 2. Is there a surplus or shortage of the good at this price? (\$1,000)

$$P = 2,$$