NAME: _____

DATE: _____

ECONOMICS 101 FALL 2017 - IN CLASS ACTIVITY

QUESTION

The domestic demand and domestic supply curves for MP3 players in a small closed economy of perfect competition are as follows:

Supply: $P = 3Q_S + 2$ **Demand:** $P = -Q_D + 102$

a) Calculate the equilibrium and the value of consumer surplus (CS) and producer surplus (PS) for the MP3 player market in this small closed economy.

b) Graph the CS, PS, DWL.

Suppose that this small closed economy is open to free trade and that the world price is $62 per MP3 player. (This is like a price control of $62)

c) With free trade, what is the quantity supplied by domestic producers? quantity demanded by domestic consumers? import or export quantity?

d) Calculate the value of consumer surplus (CS) and producer surplus (PS).

i)

	OC Econ	OC CW
Laura	$\frac{4}{1} = 4$	$\frac{1}{4} = .25$ *
Kelsey	$\frac{1}{4} = .25$ *	$\frac{4}{1} = 4$

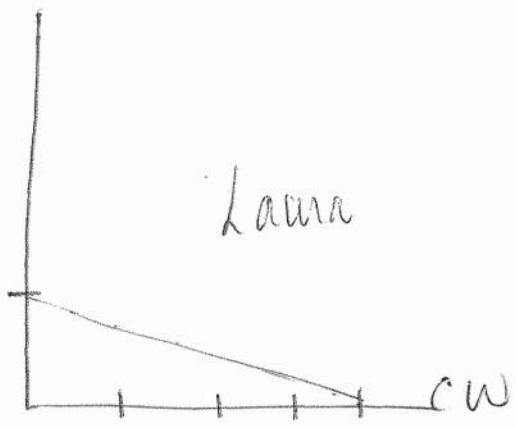
$OC = \frac{\text{Give Up}}{\text{Gain}}$

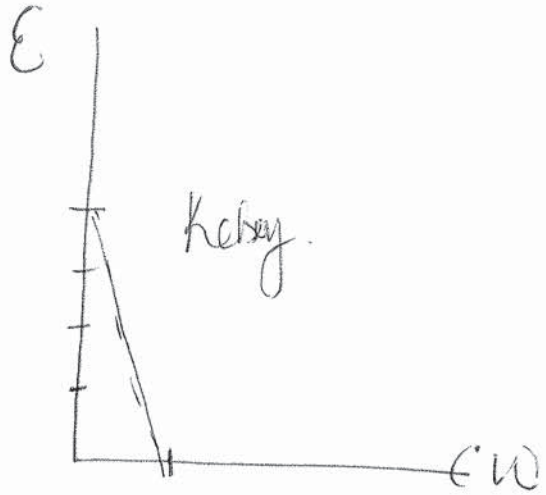
CA in Econ — Kelsey
CA in CW — Laura
> lowest O.C

AA in Econ — Kelsey
AA in CW — Laura
> highest productive / unit input.

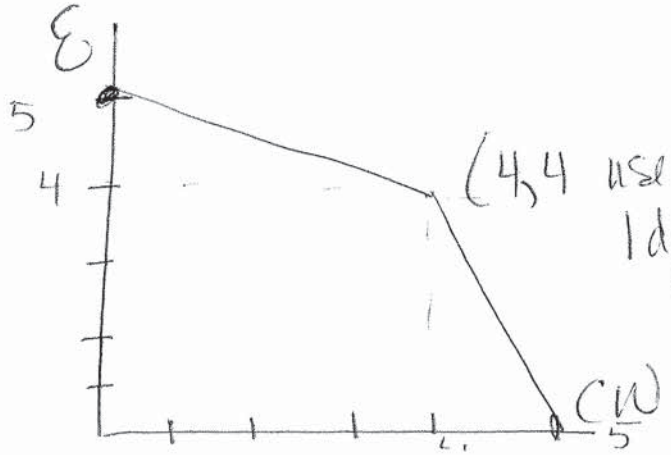
ii)

iii)





JOINT L + K.



(4,4 use CA + allocate 1 day each)

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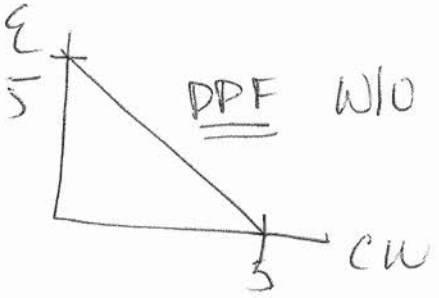
iv) 4,4 would not be achievable w/o trade with each + comparative adv. It would not be an attainable value.



v) MAX after at 4,4 with trade + CA.

Before w/o CA

E	CW
5	5
2.5	2.5
3 3/4	3. 3/4

basis allocating 1, 1/2 + 3/4 days to each of Econ + CW.

* Gains result from CA + each producing their CA. They trade in this case with each other.

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