

PROBLEM SET #1 (2 % of grade; 10 points possible)

DUE: At Mon or Tues section, week of September 10

Problem sets lose 5 points if they are 0 minutes - 24 hours late after the start of section. No problem sets accepted more than 24 hours after section begins. Your submitted work must be your own: Problem sets that are identical (in whole or in part) to another student's problem set will receive a zero. Essay must be submitted twice: hard copy attached to this problem set and electronically via bCourses.

If you are observing Rosh Hashanah and will not be in section on September 10/11, please create a pdf of your problem set and email it to your GSI no later than the beginning of your section. You can create pdf's using apps such as Genius Scan or others. It's your responsibility to be sure your scan is readable and that you attach the right file to your email.

Add/Drop deadline is 11:59 pm on Wednesday September 12. There will be no graded work returned before the add/drop deadline. Look at old midterms on the course website and the work expected on problem sets (such as this one) to inform your decision about whether to drop or continue on.

IMPORTANT: Place your answers in the area indicated. Problem set answers (other than essay) must be on this sheet to be graded.

1. (2 points total; 1 point each) Supply and Demand

For each of the events described below, **sketch a supply and demand graph** that illustrates the event. Be sure to properly label all curves and relevant points in your graph. In the area to the left of your graph, **explain why you think your graph is correct**. In that area, **also answer the questions asked**.

- a. Cups of Coffee at local coffee shops in Berkeley: The minimum wage in Berkeley will rise from \$13.75 to \$15.00/hour on October 1. Most workers in local coffee shops are paid the minimum wage. What is the effect on the price of a cup of coffee at local coffee shops in Berkeley? On the quantity of cups of coffee sold?

- b. Shares of Corporate Stocks in the United States: Following the election of a businessman as President, financial investors anticipate a wave of deregulation and increased business profit, which in turn will increase what they earn from the stocks they own. What is the effect on the price of a share of stock? On the quantity of shares of stock sold?

2. (2 points total; 1 point per part) Positive vs. Normative, Sources of Disagreement

You are an economic policy analyst. A member of the House of Representatives asks you if you think a proposed tax plan is a good plan.

A. Is the question a positive or normative question? (Circle one) **positive** **normative**

In this space, explain why that is your answer.

At a minimum, there is one key piece of information you need to have in order to answer the question. What is that one piece of information? Why do you need it?

b. Refer to the four causes of disagreement discussed in article #1 by Fritz Machlup, "Why Economists Disagree." First, list the 4 causes, followed by a one phrase or sentence definition of each.

1.
2.
3.
4.

The member of the House disagrees with your assessment of whether the tax plan is a good plan. Which of these four possible causes of disagreement might help explain why you and the Representative disagree? Explain.

3. (3 points total; 1 point each) Production Possibilities Frontier, Growth, Aid

GDP per capita (gross domestic product per person) is a measure of the average income of the population. GDP per capita by state for the U.S. is shown at https://en.wikipedia.org/wiki/List_of_U.S._states_by_GDP_per_capita (despite what your HS teachers told you, wikipedia can be helpful. Just be smart about when you use it. Never for something where views can differ. Often for basic concepts in stats, math, even econ.) The poorest state in the U.S. is Mississippi (MS). Total output in Mississippi can be divided into two categories: investment (capital) goods and consumable goods. An increase in investment goods leads to an increase in both the quantity of capital and the productivity of labor. An increase in consumable goods has no effect on the ability of the economy to produce other goods.

- A. At the right, draw a production possibilities frontier that shows the possible combinations of output for the Mississippi economy. Label your axes "I" and "C." Label your curve PPF_1 .

"Your PPF slopes down because of tradeoffs." Explain that sentence in words that make sense to someone not taking economics.

"Your PPF is non-linear because of the law of increasing opportunity costs." Explain that sentence in words that make sense to someone not taking economics.



- b. An economic advisor suggests that the Mississippi state government offer tax incentives to increase the amount of investment in the state. What is one benefit of shifting resources from the production of consumable goods to the production of investment goods? What is one cost of doing so?

Benefit:	Cost:
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- c. A hurricane destroyed a large quantity of the capital used to produce both types of output, shifting Mississippi's PPF inward toward the origin. Aid from other states, coordinated by the federal government through FEMA, provided large quantities of consumer goods to the MS economy following the natural disaster. How does the provision of aid allow the Mississippi economy to consume a combination of output beyond its PPF? Illustrate your answer with a graph.



4. (3 points total) Gains from Trade, Opposition to Trade

Lucky you. You have to mediate between two people who are disagreeing, loudly. One is very pro-trade, convinced that trade is great and the government should do everything it can to support trade. The other is anti-trade and supports the imposition of tariffs and other government policies to reduce trade. They aren't listening well to each other. Your task is to write one page which will be given to both people, to try to help each one see the other person's point of view.

Suggested outline:

- Start by explaining the idea of the "gains from trade"
- Then acknowledge that there are also potential costs to trade, and discuss the cost that you think the anti-trade person is concerned about
- Then propose and defend a policy that the government could implement (or highlight a policy the government has already implemented) that these two people might both agree would be a good policy to implement.

A very good paper will make it clear that in addition to the material in the textbook, lecture, and section, that you have read and understood articles #3 and 4 in the reader.

Remember that in economics (as in life), the conclusions you come to will depend in part on the assumptions you make. So be sure you make any relevant assumptions explicit. Don't invoke wildly unrealistic assumptions; the assumptions you make should be reasonable.

Your essay must be your own work and must be unique to this class. To present anyone else's work as your own is theft of intellectual property: plagiarism. That means you must use quote marks "" around any words you quote exactly from any source (and then provide the source for the quote). It also means that if you get ideas from anyone else, or if you paraphrase someone else, you must again give them credit for their ideas. To do otherwise is plagiarism: the theft of intellectual property, a violation of the Code of Student Conduct and one of the worst offenses in academe. If you have questions about whether or not you've properly cited your sources, please talk with your GSI, the Head GSI, or Prof. Olney.

"Your own work" also means that essays crafted jointly on Piazza or otherwise are not acceptable. That too is plagiarism.

Specifications: 400 words maximum, one page maximum. ("Works Cited" list can be on a second page and does not count against the 400 word maximum.) Double space. 10-11-12 pt font. 1" margins on all sides. Your name, date, and the word count in the top right corner. Attach your paper directly behind the problem set sheets.

Submission: Essay must be submitted twice. [1] Attach a hard copy of your essay to your problem set sheets. [2] Submit the essay electronically via bCourses, assignments tab. Electronic submission must be completed by 6 pm on the day your problem set is due (Monday 9/10 or Tuesday 9/11). Acceptable formats: doc, docx, pdf. bCourses will check your paper using TurnItIn to ensure you have not plagiarized from published sources or previously submitted papers. For more information on TurnItIn, see <http://eml.berkeley.edu/~olney/fall18/econ1/turnitin.pdf>

Grading: 0 - 1 - 2 - 3 points, taking into account content, following specifications, and writing quality. No submission on bCourses results in a 0 on the essay.