

Economics 100 Assignment #1 Name _____

Consider Palomar College as a business. (If you are new to Palomar College, consider instead your high school or any other business with which you are familiar.)

1. For Palomar College, what would qualify as the **natural resources**?
2. For Palomar College, what would qualify as the **labor**?
3. For Palomar College, what would qualify as the **capital**?
4. We have defined opportunity cost as the value sacrificed whenever a decision is made. You have made a decision to attend Palomar College this semester. Make an estimate of the total opportunity cost of your decision. This will depend on how many units you are taking and how many days of the week you attend. Be sure to consider the value of time spent studying.

My Total Opportunity Cost is \$_____.

Based on the following calculations:

5. Consider the War in Iraq. It has been going on since 2003. **What are the full opportunity costs to the United States as a whole from engaging in this war?** Do not provide a dollar estimate. But do list as many aspects as you can in which the United States as a whole has sacrificed because the War in Iraq was fought.

One of the opportunity costs to the United States as a whole is that American military personnel and contractors were killed or seriously injured. **How would one place a dollar value on a human life lost at age 22?**

6 Private industrial timber companies own 15% of all timberland in the United States (9% in the West). At some point, the trees are cut, transported to a mill, processed into either paper or lumber products, and then sold. Assume that the trees are already planted. Two costs will be incurred before the trees are to be cut. First, in ten years, there must be a commercial thinning. This means that workers will be hired and machines purchased to reduce the amount of undergrowth so that nutrients can be concentrated in the trees. Second, in ten years and again in twenty years, the trees will be chemically fertilized through aerial spraying.

The trees will grow very quickly for 50 to 60 years. After this, they grow slowly. The slow growth produces a wood that is free of knots and sap and therefore sells for a much higher price in the market.

Use the principles of **rational decision-making** from Class 2 to explain how a timber company would go about making the decision as to the best time for it to cut the trees.

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Homework Assignment #2

1. In the chapter, it was argued that the demand for airline travel was relatively elastic. Explain why this would be so using the three factors discussed in this section.
2. The California State University System has raised its fees by 10%.. Would the demand for these universities (such as San Diego State University or CSU – San Marcos) be relative elastic or inelastic? Use the three factors to explain why.
3. In 2006, the fees at community colleges will fall from \$26 to \$24 per unit. Is the demand for community college courses relatively elastic or relatively inelastic? Use the three factors to explain why. Based on your answer, what will happen to the revenues of community colleges?
4. The Post Office raised the price of a first class stamp from 37 cents to 39 cents. In this range, is the demand to send a first class letter relatively elastic or relatively inelastic? Why?
5. In each case, state whether you believe the demand for the product is relatively elastic or relatively inelastic? Then, provide reasons for your conclusion.
 - a. A company buying advertising during the Super Bowl
 - b. Wheat used to make bread and flour
 - c. Services of a dentist to bleach teeth to make them very white
 - d. A new automobile when the interest rate to borrow money to buy the automobile goes to zero
 - e. Use of cigarettes when the state of California raised the cigarette tax by \$1.10
 - f. Buying gasoline when the price rose from \$2.00 to \$3.00 per gallon
 - g. Electricity when the prices tripled in just a few months

6. In Chapter 4, you were given the following demand curve for homes:

	Price	Quantity Demanded	Total Revenue
	\$340,000	0	
1	\$320,000	1000	
2	\$300,000	2000	
3	\$280,000	3000	
4	\$260,000	4000	
5	\$240,000	5000	
6	\$220,000	6000	
7	\$200,000	7000	
8	\$180,000	8000	
9	\$160,000	9000	
10	\$140,000	10000	

Fill in the table to calculate the **total revenue**. In doing so, ignore the three zeros on the price and the three zeros on the quantity demanded. Your result will be in millions of dollars.

In what price range is the demand for homes **relatively inelastic**? _____

In what price range is the demand for homes **relatively elastic**? _____

In what price range is the demand for homes **unit elastic**? _____

Economics 100 Homework Assignment #3 Name _____

Internet Assignment

This chapter has considered factors that affect the demand for homes. Consider the demand for homes in California. Go to the site for the California Statistical Abstract linked on my web site..

In each of the following cases, describe what the data say has been happening over time. Then, explain how these changes would affect the demand for homes in California.

1. The **population** of California (Table B1)
2. The **per capita income** of California (You can get the income data in Table D4. You then have to divide by the population from question 1 to have the per capita income.)
3. The **prices of homes** in California (Table I11) The table gives only the prices of existing homes. But the prices of new homes have been changing in the same direction.
4. **Rents** on Apartments (Table I2)
5. **Mortgage Interest Rates**. (Interest rates in California are basically the same as in the rest of the country. You can find current mortgage rates in any newspaper.
6. Then, write a **brief conclusion**. What has been happening to the demand for homes in California (see Table I3)? Based on your answers above, **why** might this have been happening?

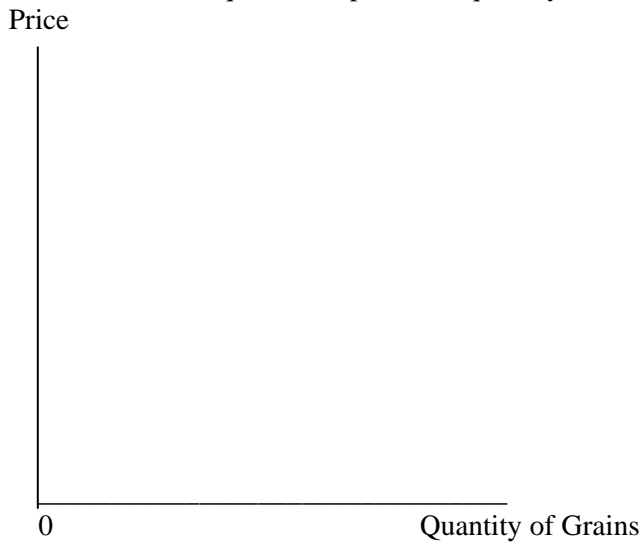
Economics 100 Homework Assignment #4 Name _____

Consider the market for **grains, such as wheat or corn**.

(1) Is the demand for grains relatively elastic or relatively inelastic with respect to the price? **Explain why.**

(2) Is the demand for grains relatively elastic or relatively inelastic with respect to income? **Explain why.** (This means that if income rises, will the demand for grains increase a small amount or a large amount?)

(3) On the graph below, draw the demand curve as you have described it. Draw a normal supply curve. Show the equilibrium price and quantity.



(4) Over time, the demand for wheat or corn has shifted to the right. Why has this occurred?

(5) Over time the supply of wheat or corn has shifted to the right. Why has this happened?

(6) Which do you believe has shift more over the past century: the demand curve or the supply curve? Explain why. Then, show these two shifts on the graph.

(8) As a result of these two shifts, the price of wheat or corn will _____ (rise or fall?)
 Because of the price elasticity of demand for wheat or corn, total revenues received by farmers will _____ (rise or fall?)
 The result is that the total profits of farmers will _____ (rise or fall?)

(9) The market is sending a signal to the farmer. What is it telling the farmer to do?

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Extra Credit Homework Assignment #5

Form into groups of two to three people.

Pick out the stock of a particular company (any company). Find the value of the stock of that company in the most recent week. You will find this information either in a newspaper or on the Internet. Then, find the value of that stock one year ago (or as close to that date as you can).

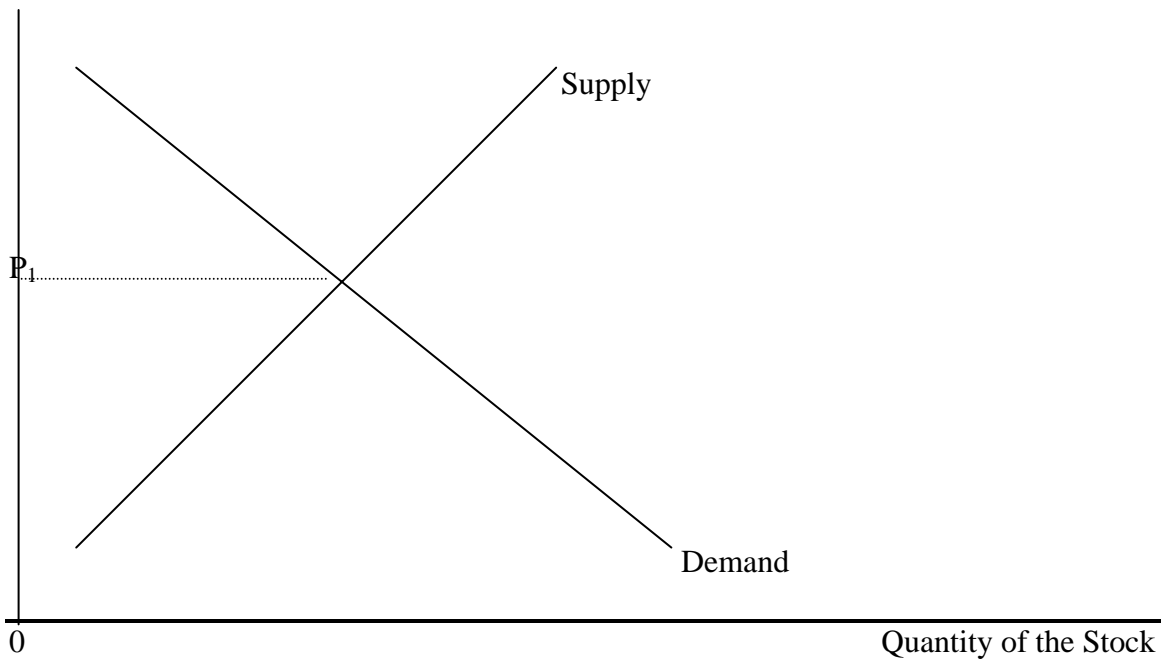
Name of Company _____

Value Now \$ _____

Value Then \$ _____

You will need to do some research as to what has been happening concerning this company. You know that the price is affected by the demand for and the supply of that stock. Demanded are those who wish to buy the stock. Suppliers are those who own the stock and are considering selling. There are six possible determinants of the demand and four possible determinants of the supply. Based on your research, explain what might be responsible for the change in the price you have discovered. Show your reasoning on the graph below.

Price of the Stock



Economics 100 Homework Assignment #6 Name _____

Ethics Questions

(1) Some people advocate a plan for educational vouchers. In its extreme form, this plan would give to the parents of each child in California a voucher for the money currently spent on schooling (about \$4,500 per child). The parents could then use that voucher to buy schooling for the child at any school in California. In some plans, the parents could pay more than the amount of the voucher if they desire. The voucher could not be used for any purpose other than school. This would replace the current system in which the money goes to the school and, with a few exceptions, each child goes to the school in the neighborhood. Thus, in effect, schools would become private businesses that would compete for students in a market.

Use the principles of the “invisible hand” and the benefits of a market to argue **in favor of** replacing the current system with educational vouchers.

Then, argue **against** the replacement of the current system with education vouchers by naming some of the problems that a system of education vouchers might cause. (In this answer, consider whether education is a different kind of good than those typically sold in markets, such as cars, and clothes.)

The following has arguments both for and against educational vouchers:

<http://secular.org/library/modern/church-state/vouchers.html>.

The following has arguments against educational vouchers:

http://www.adl.org/frames/front_vouchers.html

The following sites consider the use of educational vouchers in the city of Milwaukee:

<http://hdc-www.harvard.edu/pepg/op/evaluate.htm>

<http://www.lafollette.wisc.edu/outreach/pubs/fifthyear/index.htm>

(2) In April of 1995, the television show 60 Minutes had a feature on a small town in Vermont. The town was one of many towns that were trying to stop Wal-Mart from opening a store ten miles outside of town. (Wal-Mart used to locate primarily in rural areas.) The town was complaining that Wal-Mart would ruin many of the local businesses. As those local businesses failed, their owners and workers would reduce buying at the other businesses, such as barbers or gasoline stations. The whole community of the small town would be lost. People would have to move. Because people would have less income, they would pay less in taxes, reducing the money available for schools, roads, police, and so forth. Other towns have complained that Wal-Mart creates traffic congestion and that Wal-Mart raises the county’s health care costs because it does not insure its workers.

Write a brief response to the town justifying the coming of the Wal-Mart. Base your response on the principles of the “invisible hand”.

Then, write a brief response to Wal-Mart. Explain what problems are likely to result if the “free market” is allowed to work in this case (that is, if Wal-Mart is allowed to open its store).

Economics 100 Homework Assignment #7 Name _____

Let us consider an orange grove. When the grove began in the 1950s, the orange trees were planted. Today, you have purchased the grove. The trees must be watered and fertilized. You have drip irrigation on timers to take care of the watering. You hire workers to do the fertilizing. Workers also keep the area clear of competing vegetation, using a small tractor. Herbicides may be applied by the workers. Workers also remove trees that have died and plant new ones from seedlings. The main chore for the workers is the picking of the oranges and the hauling of them to the processor. There are some buildings needed to keep the tractor and other equipment.

Let us examine the costs. Let us assume that we hire six full-time workers (or the equivalent). Each is paid \$12,000 per year (\$1,000 per month), making the labor cost equal \$72,000. The company has buildings. It has machinery, such as the tractor, the trucks, saws, shovels, and so forth, as well as buildings. Our measure of cost here is the part of the building and machines used up during the year (called depreciation). Let us assume that the cost of all of this capital for the year is \$16,000. Let us assume that the owner paid \$400,000 for the grove and the capital; this money could have been earning 5% interest. We will assume here that owner does not work in this business.

The **explicit costs** of owning the orange grove are \$ _____.

The **implicit costs** of owning the orange grove are \$ _____.

The **total economic cost** of owning the orange grove is \$ _____.

The **fixed costs** of owning the orange grove are \$ _____.

The **variable costs** of owning the orange grove are \$ _____.

If we assume that we sell 180,000 pounds of oranges during the year at a price of \$0.60 per pound, the grove would receive a total revenue of \$108,000. We would say that the **economic profit** is equal to \$ _____. What does this mean?

If the price had been \$0.70 per pound, the revenue received would have been \$126,000. The economic profit would have been \$ _____. What does this mean?

The orange grove has its land, buildings, and machinery. These are the fixed factors of production. Let us focus on only one of the variable factors of production: labor. The following table describes the relation between the number of pounds of oranges sold per year and the number of workers hired. Assume that all oranges are the same. This relation is the **production function**.

<u>Number of Workers</u>	<u>Number of Pounds Per Year</u>
0	0
1	10,000
2	40,000
3	90,000
4	130,000
5	160,000
6	180,000
7	192,000
8	198,000
9	200,000
10	200,000
11	190,000

Page 2 of Homework Assignment #7

In the table below, calculate the **marginal physical product**

Number of Workers	Marginal Physical Product
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	

- B. Using the table, up to how many pounds of oranges are there **increasing marginal returns**? Think of the example of an orange grove. Give some **reasons** why there might be increasing marginal returns.
- C. Using the table, show where there are **diminishing marginal returns**. Think of the example of an orange grove. Give some **reasons** why there might be diminishing marginal returns.
- D. Ignore the cost of the capital, the cost of the natural resources, and the opportunity costs of the owner and focus only on the cost of the hired labor. Assume that each worker is paid \$12,000 per year (\$1,000 per month). What is the marginal cost for the first 10,000 pounds of oranges per year? Ignoring the other costs for now, the first 10,000 pounds require the hiring of one worker. That worker is paid \$12,000. Thus, each pound costs \$1.20 worth of labor to produce (\$12,000 divided by 10,000). The total variable cost is calculated as \$12,000 times the number of workers. **The marginal cost was the change in the total cost from producing one additional pound of oranges.** What is the marginal cost of the next 30,000 pounds of oranges? And so on. Use this to fill in the following table:

Workers	Quantity of Oranges	Total Variable Cost	Marginal Cost
1	10,000	\$12,000	\$1.20
2	40,000	24,000	
3	90,000	36,000	
4	130,000	48,000	
5	160,000	60,000	
6	180,000	72,000	
7	192,000	84,000	
8	198,000	96,000	
9	200,000	108,000	
10	200,000	120,000	

- E. Examine your two tables. When the marginal physical product is rising, the marginal cost is _____.
- And when the marginal physical product is falling, the marginal cost is _____.

Economics 102 Homework Assignment #8

Name _____

Go back to the case of the orange grove in Assignment #7. Assume that the company sells its product in perfect competition at a market price of \$0.60 per pound. Using the principles described in the reading, the profit-maximizing quantity is _____ and the economic profit is \$ _____ SHOW ALL CALCULATIONS

Quantity	Total Revenue	Marginal Revenue	Marginal Cost
10,000			\$1.20
40,000			.40
90,000			.24
130,000			.30
160,000			
180,000			.60
192,000			1.00
198,000			2.00
200,000			6.00

(The marginal cost was calculated in Assignment #7 and is repeated in the table.)

2. Now assume that the company sells its product in perfect competition at a market price of \$0.40 per pound. Using the principles described in the reading, the profit-maximizing quantity is _____ and the economic profit is \$ _____ SHOW ALL

CALCULATIONS

Quantity	Total Revenue	Marginal Revenue	Marginal Cost
10,000			\$1.20
40,000			.40
90,000			.24
130,000			.30
160,000			
180,000			.60
192,000			1.00
198,000			2.00
200,000			6.00

Since the company is making an economic loss, should it continue to produce in the short-run or should it shut down? Why?

3. Now assume that the company sells its product in perfect competition at a market price of \$0.30 per pound. Using the principles described in the reading, the profit-maximizing quantity is _____ and the economic profit is \$ _____ SHOW ALL

CALCULATIONS

Quantity	Total Revenue	Marginal Revenue	Marginal Cost
10,000			\$1.20
40,000			.40
90,000			.24
130,000			.30
160,000			
180,000			.60
192,000			1.00
198,000			2.00
200,000			6.00

Economics 100 Homework Assignment #8 --- Page 2

Fill-in the following table. Assume that there are 1000 orange groves and that they are identical. (Remember, in your answer, at some point the company may shut down.)

Price	Supply of One Grove	Industry Supply	Quantity Demanded
\$0.30			200,000,000
\$0.40			190,000,000
\$0.60			180,000,000
\$1.00			170,000,000
\$2.00			120,000,000
\$6.00			80,000,000

The equilibrium price is \$ _____ and the equilibrium quantity of oranges is _____.

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Name _____

Homework Assignment #9

Return to the case of the orange grove from the previous homework (see above). Assume that all orange groves sell their oranges through one cooperative. **This cooperative acts as a pure monopoly.** Assume that, at a price of \$1.50 per pound, the monopoly cooperative will sell 10,000 pounds of oranges. Every time the price is lowered by 5 cents per pound, another 10,000 pounds will be sold. This is shown below. Fill in the table. The average total cost and the marginal cost are repeated from the previous homework assignments for the numbers that you calculated. You will not need any of the numbers that have been left blank.

Quantity Price Total Revenue Marginal Revenue Average Total Cost Marginal Cost

10,000	\$1.50			\$4.80	\$1.20
20,000	1.45				
30,000	1.40				
40,000	1.35			1.50	0.40
50,000	1.30				
60,000	1.25				
70,000	1.20				
80,000	1.15				
90,000	1.10			0.80	0.24
100,000	1.05				
110,000	1.00				
120,000	0.95				
130,000	0.90			0.65	0.30
140,000	0.85				
150,000	0.80				
160,000	0.75			0.60	0.40
170,000	0.70				
180,000	0.65			0.60	0.60
190,000	0.60				
200,000	0.55			0.72	6.00

The **quantity** that the monopolist will choose in order to maximize profits is _____.
Explain the reason that this quantity will be produced.

The **price** that this monopolist will charge is \$_____.

The **economic profits** that this monopolist will earn will equal \$_____.
Show Calculations.

Do the following three questions. You are encouraged to work in groups and turn in one set of answers.

1. **Ethics Question**

Two people can go to a restaurant. They can have the same meal at the same time. One is over 65 and the other is under 65. The one who is over 65 will often pay a lower price. Is this a fair and reasonable practice on the part of the restaurant? Explain your position.

2. California is now often cited as an example of “how not to do deregulation”. Write a short essay describing to someone unfamiliar with Economics exactly what went wrong with California’s deregulation. (You can get the material you need from Microeconomics, Chapter 19, Page 12 on.)

3. On the 2005 November ballot, there was a proposition made to return back to the traditional regulation of public utilities that existed prior to 1996. What arguments can you give **in favor of** such a proposition? What arguments can you give **against** such a proposition? (The proposition was defeated.)

Extra Credit (Up to 3 Bonus Points)

A **Municipal Utility District (MUD)** is a public utility that is government owned instead of investor owned. There is one in Sacramento (SMUD), in Los Angeles (Department of Water and Power), and in Seattle (Seattle Light). In 2001, San Francisco defeated an attempt to create one. Go to the Internet. Get the information you need to answer the following (you might go to the arguments surrounding the San Francisco vote in November, 2001): what are the **advantages** and what are the **disadvantages** of a Municipal Utility District as compared to an investor-owned utility?

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Homework Assignment #11

In Chapter 14, you were given homework concerning an orange grove. The following table described the relation between the number of pounds of oranges sold per year and the number of workers hired. This was the **production function**. You were asked to calculate the marginal physical product (MPP). Refer back to that homework.

<u>Number of Workers</u>	<u>Number of Pounds Per Year</u>	<u>Marginal Physical Product (MPP)</u>
0	0	
1	10,000	
2	40,000	
3	90,000	
4	130,000	
5	160,000	
6	180,000	
7	192,000	
8	198,000	
9	200,000	
10	200,000	
11	190,000	

You were also given that the price of oranges was \$0.60 per pound and that the wage paid to each worker was \$12,000 per year. Assume that oranges are sold in a perfectly competitive product market and that the workers are hired in a perfectly competitive labor market.

In the table below, calculate the **marginal revenue product** & the **marginal resource cost**.

<u>Workers</u>	<u>MPP</u>	<u>Price</u>	<u>Marginal Revenue Product</u>	<u>Wage</u>	<u>Marginal Resource Cost</u>
1		\$0.60		\$12,000	
2		\$0.60		\$12,000	
3		\$0.60		\$12,000	
4		\$0.60		\$12,000	
5		\$0.60		\$12,000	
6		\$0.60		\$12,000	
7		\$0.60		\$12,000	
8		\$0.60		\$12,000	
9		\$0.60		\$12,000	
10		\$0.60		\$12,000	
11		\$0.60		\$12,000	

This company will hire _____ workers because _____.

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Name _____

Homework Assignment #12

The following are the shares of sales of tobacco for the main tobacco companies:

	1980	1995
American Tobacco	11%	*
Liggett and Myers	2%	2%
Lorillard	10%	8%
R.J. Reynolds	33%	26%
Philip Morris Co.	31%	46%
Brown and Williamson	14%	18%

* Brown and Williamson acquired American Tobacco. The 1995 share for American is included in the Brown and Williamson share.

1. Calculate the **Herfindahl Index (HHI)** for 1980.
2. Calculate the **Herfindahl Index (HHI)** for 1995.
3. Based on your answers to questions 1 and 2, plus a perusal of the data above, draw a conclusion as to what happened to the competitiveness of the tobacco industry between 1980 and 1995.
4. Use the data for 1980 from Question 1. Show how the Merger Guidelines would be used to allow the merger of Brown and Williamson with American Tobacco.
5. In the 1860s, the Homestead Act was passed. This granted land in the West to people who would settle it (up to a limit of 160 acres). In 1891, the Forest Reserve Act was passed, allowing the government to buy up land for the protection of trees. But much of the West is hot, dusty, and rocky. It has been called "the land that nobody wanted". Settlers did not claim the land because its productivity was low. The federal government did not want the land because it was not forested and was not especially spectacular. Thus, this land was not private property and was not regulated by the government.
The land did, however, have value as marginal grazing land. From the 1850s until 1934, people grazed their cattle and sheep on this land that they did not own. They did so with no government regulation. Use the principles discussed in the chapter to explain **what** would result on this land and **why** it would result.

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Homework Assignment #13

In the class, there were several functions of government noted under laissez faire. For each of the following, state under which of the functions is it acceptable in laissez faire? **Then, state why the government should provide this function.**

1. Government pays most of the cost for you to be a student at Palomar College. _____
2. Government has price supports for farmers (discussed under price floors) _____
3. Government pays welfare (TANF) for single mothers with small children. _____
4. Government may require all employers to provide health insurance coverage for their workers. _____
5. Government owns and controls the beach _____
6. Government provides disease prevention, such as actions to reduce the chance of an epidemic of bird flu _____
7. Government provides grants for health care research _____
8. Government builds superhighways and makes access to them available without charge _____
9. Government provides low-interest loans to victims of hurricanes, earthquakes, and other natural disasters _____
10. Government requires that all gasoline stations post their prices on signs that can be read from 50 yards away _____

Homework Assignment #13 --- Page 2

I. The reading describes the U.S. Forest Service. A similar bureaucracy, the National Park Service, is part of the Department of the Interior. It manages some 400 national parks and 87 million acres. The most famous are Yellowstone and Yosemite. Others you may be familiar with are the Grand Canyon, Sequoia - Kings Canyon, Death Valley, and Cabrillo Monument on Point Loma. The National Park Service has a budget of about \$1.5 billion, funded by Congress. Below are some of the criteria by which the National Park Service is run. What do you believe will result from these criteria? **WHY?**

(1) The total amount of money appropriated by Congress is divided among the parks according to the number of visitors in each park.

(2) Congress specified that charges to users of the park be low. The average park charges users about \$0.60 per visitor day. It has been estimated that the market value is actually \$14 per visitor day. The Park Service is only allowed to keep a small part of the fees collected by the parks.

(3) There are about 500 businesses that have concessions in the national parks. They run hotels, stores, restaurants, tour guides, etc. At present, they pay about 2.5% of their sales receipts to the Park Service for the right to operate in the parks. Payments of 10% to 15% are commonly charged in other activities. The Park Service is not allowed to keep any of the concession receipts.

II. Many of the national parks are facing severe ecological damage. In addition, maintenance has been deferred in many parks, leading to roads, sewage, and buildings in disrepair. (In Yellowstone, 90% of trails and 80% of roads are in need of repair.) Yet, while this was occurring, 33 new areas were added to the national park system. And hundreds of millions of dollars were spent on visitors' centers (each about the size of three large homes and costing about \$8 million). Use the principles of Public Choice to explain what would seem to be inefficient spending occurring while other, more important, spending is not done.

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Homework Assignment #14

Choose **TWO ONLY** of the following questions:

1. In 1997, the poverty rate for the United States was 13.3%. But the poverty rate for California was 16.8%. Based on what you know about the causes of poverty and the type of people likely to be poor, what hypotheses can your group develop to **explain why the poverty rate is higher in California?**
2. Read the description of the creation of the great fortunes in the text. In magazines, books, or on the Internet, find the story of a billionaire who is not mentioned in the text. You may use one who is currently alive or an historical person. Write a brief description of the source of this person's great wealth. (If the wealth was inherited, go back to discover the original source of the wealth.) To what extent is your description of the source of this person's great wealth consistent with the description in the text?

Ethics Question

3. Resolved: the United States government should tax the very rich (those with incomes of \$500,000 per year and up) and transfer the money to the very poor (those with incomes of \$10,000 and under).

Explain two arguments **in favor of** this resolution:

- 1.
- 2.

Explain two arguments **against** this resolution:

- 1.
- 2.

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Homework Assignment #15

Name _____

1. Using the tax table in the text, in 1980, in what tax bracket would you be in if your adjusted gross income were \$20,000? \$40,000? \$100,000? What tax bracket would you be in as of 2005?

2. Use the principle concerning the sales tax to explain why each of the following taxes is **regressive**:

1. the gasoline tax
2. the cigarette tax

3. Assume a person has a taxable income of \$10,000. How much tax would the person have had to pay in 1980? Now recalculate the tax that would have to be paid by the person in 1985 with an income of \$10,000. How much would this person have saved from the 1981 change in the tax law?

Now, recalculate the tax that would have to be paid in 1992 by the same person if his or her income were \$10,000. How much would this person's taxes have changed because of the 1986 change in the tax law?

Finally, recalculate the tax that would have to be paid by the same person in 2000 if his or her income were \$10,000. How much would this person's taxes have changed as of 2000 compared to 1980?

4. Go over this chapter. Evaluate each of the following taxes as "good" or "bad" according to the three criteria.

Equity Ease of Administration Incentive Effects

Personal Income Tax

Corporate Profits Tax

Social Security (FICA) Tax

Sales Tax

Property Tax

5. Choose ONE ONLY of the following: (2 bonus points)

Go to the following site: <http://www.nrst.org/basics/index.html>

The information on this site argues that a **national retail sales tax** should replace the current income tax. What are the arguments made on this site to justify having a national retail sales tax? Then, based on what you have learned, provide some criticisms of having a national retail sales tax. (You may use other sites or printed material on the national retail sales tax, if you wish.)

OR

Go to the following site: <http://www.northwestwatch.org>. Here you will find a citizen action group that advocates a shift from the income tax to what are called "**Green Taxes**". Skim over the site. Then, first explain what are meant by "Green Taxes". Second, name some of the arguments given on this site on behalf on shifting to "Green Taxes".

Economics 100

Name _____

Homework Assignment #16

1. Assume that there are only three goods produced. The following represent the prices and quantities sold in the base year (2000) and the current year (2006):

	Price ₀₀	Quantity ₀₀	Price ₀₆	Quantity ₀₆
A	\$100	50	\$150	100
B	\$ 50	40	\$ 80	50
C	\$ 25	20	\$ 50	20

What was the Nominal Gross Domestic Product (GDP) in 2000? Show calculations.

What was the Nominal Gross Domestic Product (GDP) in 2006? Show calculations.

What was the Real Gross Domestic Product (Real GDP) in 2006? Show calculations.

ETHICS QUESTION:

2. Is economic growth really a good thing? Economic growth refers to the increase in the standard of living generated by an increase in Per Capita Real GDP. The question is: does a greater wealth really buy greater happiness? If so, why? If not, why not? (Consider economic growth starting from the standard of living already experienced by the United States, not the standard of living experienced today by a very poor country.)

Economics 100 Homework Assignment #17 Name _____

1. Follow the path:

Go to the Unemployment Rate Link on my web site

Most Requested Series

Labor Force Statistics from the Current Population Survey

On the Form:

Click on all that are necessary to answer the questions below

Click on the most recent year

Click Retrieve Data (Click Continue if asked)

What is the most recent month?

What is the overall unemployment rate in the most recent month?

What is the total civilian labor force? What is the total number of people unemployed?

How many (and what percent) of the unemployed have been unemployed 27 weeks or longer?

What is the unemployment rate for males age 20 and over? for females age 20 and over?

What is the unemployment rate for whites overall? for blacks overall? for Hispanics overall?
for people age 16 to 19?

Go Back to Most Requested Series

Local Area Unemployment Statistics

California

A form appears. Click the box for CA Unemployment Rate and the box for
San Diego, CA MSA Unemployment Rate

Move down the form. Click on the most recent year.

Click on the Retrieve Button (Click on CONTINUE if you get a warning message)

What is the most recent month available in each case?

What was the California unemployment rate for this month?

What was the San Diego unemployment rate for this month?

Economics 100 Homework Assignment #18 Name _____

Follow the path:

Consumer Price Index on my web site

Data

Most Requested Series

Consumer Price Index --- All Urban Consumers

Fill-out the Form:

Click on U.S. All Items, 1982 - 1984 = 100

Move Down and Click on All Years in the Box

Click the Retrieve Data Button

(Click on the Continue Button on the Warning Box if it Appears)

1. What is the most recent month? What is the CPI in this month?

2. Considering the January figure alone, a market basket that cost \$9.80 in 1913 would cost how much in the most recent month?

3. What was the last year that prices **fell** from January to January?

What was the last time that prices **fell for two + consecutive years** from January to January?

4. By approximately what percent did prices rise from January, 1970 to January, 1980?
(You need to calculate this.)

5. How many years did it take for prices to triple from their January, 1913 value?

How many years did it take for prices to triple from their January, 1970 value?

6. In June, 1965, I started working at an accounting firm for \$7,200 per year. I was straight out of college and had no significant work experience. Assume that you begin your work career in the most recent month noted. What starting salary do you need to have now to have the same purchasing power as I had in June, 1965?

ETHICS QUESTION:

2. Assume that you are a policy maker for the American government. Assume that, today, the unemployment rate is 6% and the inflation rate is 5% (both reasonably high numbers). You can undertake a set of policies that would lower the unemployment rate to 4%. But if you did so, the inflation rate would rise to 10%. Or you can undertake a set of policies that will lower the inflation rate to 0%. But if you did so, the unemployment rate would rise to 10%. Consider the problems to society that result from unemployment (see Chapter 3) and the problems to society that result from inflation (see Chapter 4). Assume that you must choose one of these two sets of policies. Which one do you choose? Explain why.

Economics 100

Name _____

Homework Assignment #19

1. Assume that, there is only one product produced, which we will call a "widget". If there were full-employment, production would equal 1,000 widgets to sell at \$100 per widget. Therefore production in the United States is valued at \$100,000. Domestic income also must equal \$100,000. This income involves 10 workers being paid \$10,000 per year. (Ignore profits for now.) Each worker produces 100 widgets.

Of their \$100,000 of income, the workers pay \$10,000 in taxes, save \$10,000, spend \$70,000 on consumer goods produced in the United States, and spend \$10,000 on imports.

Businesses wish to spend \$5,000 on private business investment spending, that is, on capital goods produced in the United States.

Foreigners are spending \$5,000 on American exports.

If the government spent the same amount that it raised in taxes (\$10,000), what would happen to production in this economy? Why?

If the government decided to spend \$30,000, without raising taxes, what would happen to this economy? Why?

In order to avoid any problem of unemployment or inflation, how much should the government spend? Why?

If it did so, the government would have a budget deficit equal to \$_____.

Where would the government get the money to pay for this deficit?

Internet Assignment. Go back on the Internet. Go to Economic Report of the President on my web site. Look up the most recent Gross Domestic Product. What was the **Nominal GDP** was in the United States in **the most recent period**? Of this, how much represented **consumption**? How much represented **business investment spending**? How much represented **government purchases**? How much represented **Net Exports**?

Economics 100 Homework Assignment #20 Name_____

Go to the site <http://www.whitehouse.gov/budget>

There you will find several documents concerning the budget proposal of President Bush for the most recent year. On the site <http://www.whitehouse.gov>, you may find information about President Bush's tax plan.

Write a one page essay (preferably as a group) characterizing President Bush's fiscal policy. First explain the changes he proposed. Then, use the material of this course to analyze the likely results if all of his proposals were passed.

Economics 100 Homework Assignment #21 Name _____

1. Assume that \$10,000 in new currency is deposited in a checking account in Bank A. Assume the reserve requirement is **10% (0.1)**. Make the change in the Bank A's balance sheet:

<u>Assets</u>		<u>Liabilities</u>
Reserves	_____	Checkable Deposits _____
Loans	_____	

The change in **total reserves** = _____

The change in **required reserves** = _____

The change in **excess reserves** = _____

The change in **M - 1** = _____

2. Do the same as in question #1, but analyze the situation if a \$8,000 loan is made by the bank to Mary to buy a new car:

<u>Assets</u>		<u>Liabilities</u>
Reserves	_____	Checkable Deposits _____
Loans	_____	

The change in **total reserves** = _____

The change in **required reserves** = _____

The change in **excess reserves** = _____

The change in **M - 1** = _____

3. Mary buys the car from Joan. Joan deposits Mary's check for \$8,000 in her account in Bank B. Show the changes on the balance sheet for both Bank A and Bank B

Bank A		Bank B	
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Reserves _____	Checkable Deposits _____	Reserves _____	Checkable Deposits _____
Deposits _____		Loans _____	
Loans _____			

4. Assuming no currency is held, how much money (M-1) will ultimately be created as a result of the original creation of \$10,000 in new currency? \$ _____

Economics 100 Homework Assignment #22 Name _____

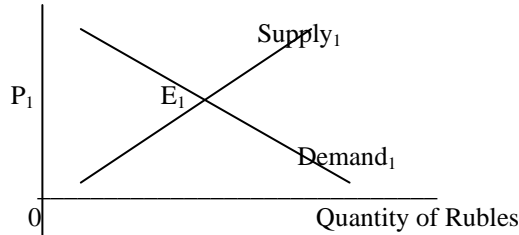
Form into groups of two to four people.

1. Go to the Interest Rate link on my web site.
 What is the most recent interest rate for each of the following:
 Federal Funds Rate _____ 3 month Treasury Bill Rate _____
 Prime Rate _____ 5 year Treasury Note Rate _____
 Discount Rate _____ 30 year Treasury Bond Rate _____

2. Then, categorize monetary policy in the 1980s and 1990s. When was monetary policy expansionary and when was it contractionary? You can do this first by following the trend in the money supply. The Fed focused on M-2. You can also do this by focusing on the trend in interest rates. You can get this information at the following site: <http://www.stls.frb.org/images/publications/mt/page18.gif> Pages 9 and Page 12 will give you a picture of the trend in interest rates. Page 9 and Page 13 will give you a picture of the trend in the money supply. (If the web site changes, the instructor will provide you an updated web site address.)

3. Go any site that has recent comments of Chairman Ben Bernanke. You might want to start with Google. You can also find these in daily newspapers.
 - a. Does Chairman Bernanke believe the economy is doing well or poorly?
 - b. What predictions does Chairman Bernanke make about changes in Real GDP in the near future? About changes in inflation rates in the near future?
 - c. What does Chairman Bernanke say about Fed policy regarding the money supply or interest rates?
 - d. Is the Fed considering any action with regard to the money supply or interest rates at the present time?

1. In 1998, two factors happened regarding Russia. First, prices in Russia were rising at a very rapid rate (hyperinflation) while prices in the United States were hardly rising at all. Second, for a variety of reasons, those who had made portfolio investments in Russia decided to take their money elsewhere. This means that they demanded that the loans they had made in Russia be paid off. When the loans were repaid, the money was not loaned to people in a different country. On the graph below, show the demand for and the supply of Rubles as of 1997. Then, **show the results of these two events in 1998**. Make the appropriate shifts in either demand or in supply or in both. **State what would happen to the Russian Ruble. Finally, state what would happen to the Russian economy as a result of this change in the exchange rate.**
 \$/Ruble



2. In each case below, show the foreign exchange market between dollars and Japanese Yen in equilibrium. Then, assume that there is **an inflation** in the United States but not in Japan.

a. Show the effects in the foreign exchange market assuming that **there are freely floating exchange rates**. Explain why you made the changes that you did.

\$/Y



What would be the effects on the American economy of this change?

b. Show the effects in the foreign exchange market assuming that the world is on a **system of fixed exchange rates**. Explain why you made the changes that you made.

\$/Y



What would be the effects on the American economy of this adjustment?