

Problem Set 2

Due Lecture 3 in class on paper

1. GLS Chapter 3, Question 1 (in this and all future problem sets, this is the “problems” section, not the “review questions” section.)

2. Addendum to Question 1. Suppose that demand is $Q = 52,000 - 200P$.

(a) What is the equilibrium price and quantity?

(b) What is producer surplus?

(c) What is consumer surplus?

(d) Suppose there is a price ceiling of \$120. What is the change in producer and consumer surplus relative to the equilibrium price?

(e) Suppose there is a price ceiling of \$80. What is the change in producer and consumer surplus relative to the equilibrium price?

3. Price regulations

Give a specific example of a price ceiling or floor – not one from class or from the text-book. Roughly, what was the impact of this regulation on quantity supplied and quantity demanded?