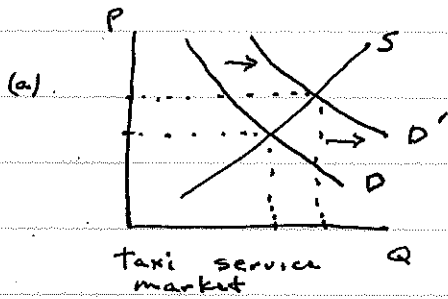
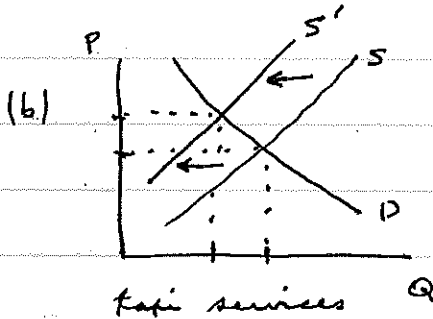


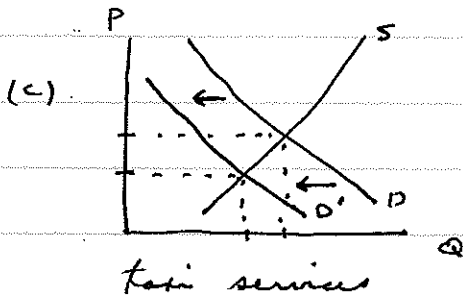
(3 pts.) 1.



bus drivers go on strike,  
demand for taxi services  
will increase

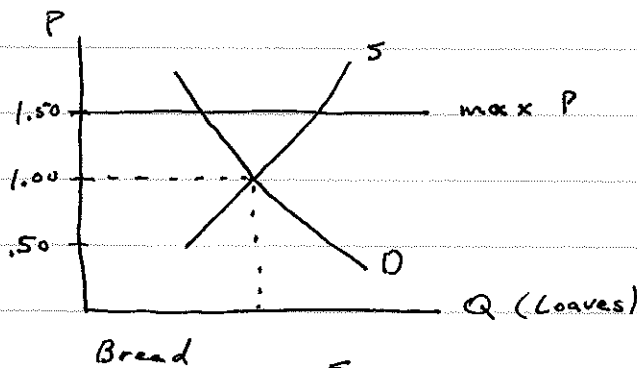


gasoline prices rise sharply,  
supply of taxi services  
will decrease

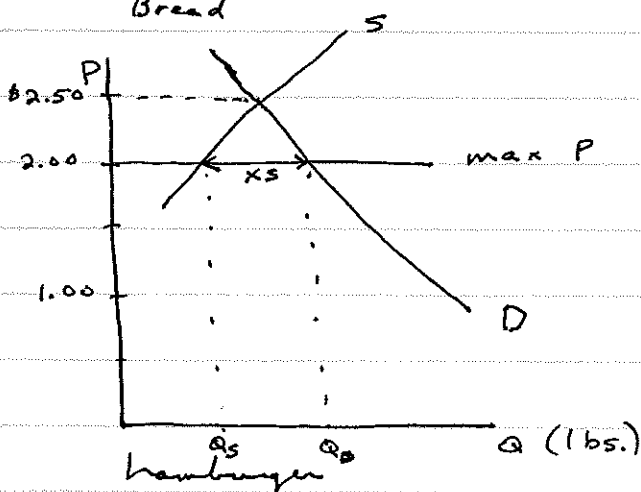


several parking garages open,  
demand for taxi services  
will decline

(4 pts.) 2.



the \$1.50 price ceiling  
will have no effect,  
since it is above the  
current equilibrium  
price of \$1.00 per loaf



the \$2.00 per lb. price  
ceiling will create a  
shortage of hamburger, since  
it is below the current  
equilibrium price of  
\$2.50 per lb. → more  
fat and waste in hamburger

(4 pts.) 3. (a)  $E_{x, P_x} = \frac{\frac{\Delta Q}{Q}}{\frac{\Delta P}{P}} = \frac{\frac{-300}{5000}}{\frac{500}{10000}} = -1.2$ , so demand is elastic

(b) elastic demand, price increases, total revenue will decrease:  
 $5000 \times \$10,000 = \$50,000,000$   
 $4700 \times \$10,500 = \$49,350,000$

(2 pts.) 4.  $E_{x, P_y} = \frac{7\% \Delta Q_D(x)}{7\% \Delta P_y} = \frac{+50\%}{+10\%} = 5$

$$\left[ \frac{.50}{4.99} \approx 10\% \right]$$

(6 pts.) 5. (a)  $Q^D = 500 - 50P + 10I$

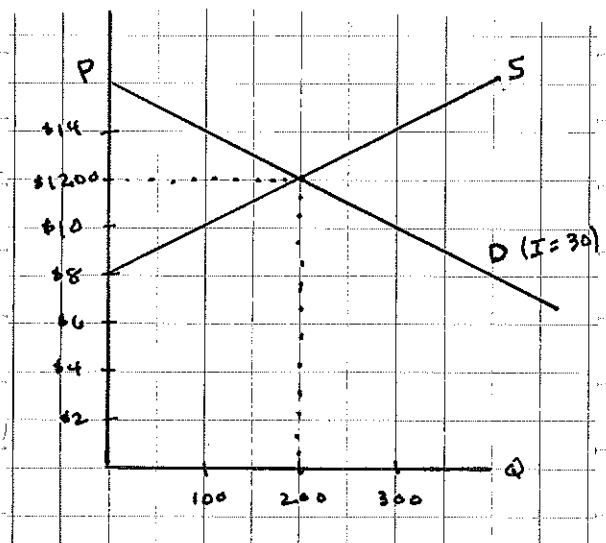
$$Q^S = -400 + 50P$$

if  $I = 30$ , market equilibrium occurs where  $Q^D = Q^S$ , or

$$500 - 50P + 300 = -400 + 50P$$

$$1200 = 100P, P = \$12$$

$$Q^S = -400 + 50(12) = 200 = Q^D$$



(b)  $E_{x, P_x} = \frac{\Delta Q}{\Delta P} \cdot \frac{P}{Q}$ ,  $\frac{\Delta Q}{\Delta P} = -50$ ,  $P = 12$ ,  $Q = 200$

$$\therefore E_{x, P_x} = -50 \cdot \frac{12}{200} = -3$$

(c)  $E_{x, I} = \frac{\Delta Q}{\Delta I} \cdot \frac{P}{Q} = 10 \cdot \frac{30}{200} = 1.5$

$$\left[ \text{since } \frac{\Delta Q}{\Delta I} = 10 \text{ and } I = 30 \right]$$