ECO 610
Fall 2016
Problem Set #1

1. Currently the market price of gasoline is $2.09 per gallon in Lexington. Suppose city council votes to make it illegal for any gasoline retailer to sell at a price higher than $3.00 per gallon, i.e. they impose a price ceiling or maximum price at $3. Illustrate and explain briefly what the effect of this policy will be on the market for gasoline.

2. From a past WSJ article: “Cattle prices are soaring toward records, pushing up the cost of beef in grocery stores. The gains are being fueled by rising appetites globally. . . . Nations in Asia and elsewhere are buying more U.S. beef.” Briefly explain and illustrate using supply and demand analysis what is going on in the market for beef. Then explain and illustrate any secondary effects that you think might occur in the market for leather.

3. Soy milk is a popular substitute for cow’s milk, especially for those who are lactose intolerant. The federal subsidy program for ethanol has increased the demand for corn and led to record high corn prices.
   a. Using supply and demand analysis, explain how higher corn prices affect the market for soybeans. Then explain how the market for a soybean-based product like soy milk is secondarily affected by the ethanol program. Illustrate your answers in supply and demand diagrams.
   b. What do you think will happen to the stock price of Blue Diamond, a large almond producer that markets its own brand of almond milk, a close substitute for soy milk. Draw a diagram that supports your answer.