

ECO 610
Fall 2017
Problem Set #1

1. (5 pts.) Saudi Arabia and Russia, two major players in the world market for crude oil, decide to ramp up production, sending oil prices downward. In other parts of the world, like North Dakota and Texas in the U.S., many but not all oil wells have an associated product, natural gas, that bubbles to the surface alongside the oil being extracted. Explain and illustrate in a diagram the effect of falling oil prices on the market for natural gas.
2. (4 pts.) We have discussed two different lines along which economic systems can be classified. We also watched a short video clip explaining how agriculture in China works. How would you categorize the Chinese system of agriculture according to each of the classification approaches? Briefly explain both the two taxonomies and how Chinese agriculture fits into each.
3. (6 pts.) Citing their concern for the well-being of low-income households, Seattle's city council implements a series of increases in the citywide minimum wage from \$9/hour to \$11/hour (last year) to \$13/hour (this year) to \$15/hour (next year). If they were to have asked you for your assessment of the impact of such a policy on different labor markets, what would you have told them? Explain and illustrate (in two separate diagrams) the impact of imposing a \$15/hour minimum wage on the labor markets for (1) unskilled, inexperienced high school students looking for a summer job, and (2) recent graduates of good MBA programs.