

# ECON 107

## Quiz 4

This quiz will last 10 minutes.

1. (4 points) **Honor Statement:** Please read and sign the following statement:

I promise that my answers to this test are based on my own work without reference to any notes, books, or the assistance of any other person. I will also neither help others nor use a calculator or other electronic aid for calculation.

Name and Surname: \_\_\_\_\_

Student ID: \_\_\_\_\_

Signature: \_\_\_\_\_

2. (4 points) Say that one country has a production possibilities set that is much larger than another—in other words anything the second country can produce the first country can and more—then there is no benefit for either country from trade. **Is this true or false, and explain your reasoning.**

**Solution 1** *One could argue that it is uncertain, but in truth it is generally false.*

*All I have said is that the first country has an absolute advantage over the second. It is almost certain that the two countries have a different comparative advantage, and thus can benefit from trade.*

*Of course another perfectly valid point is that we are all involved in trade. If this statement was true then obviously Turkey would have no benefit from trading with me.*

*It can be uncertain since I did not state that their comparative advantages were different.*

3. (9 points total) Write down three factors that can shift the demand curve and explain each one in brief. Critically what will happen to demand when one of the factors increase—if it is uncertain explain why.

**Solution 2** *Some examples given in the lecture were:*

*Income—normally it will increase demand, but if it is an inferior good it will decrease demand*

*Change in price of another good—if that good is a substitute it will increase demand, if it is a complement it will decrease demand*

*Expectations of future prices—this will increase demand*

*Population—usually will increase demand*

*Population demographics (fraction young vs old)—uncertain impact*

*But of course there are many others, for example:*

*Weather—shorts sell better when the weather is warm, so demand will increase with the temperature—but of course as a general factor the impact is uncertain*

*The only reason to reject a factor is if it clearly shifts supply and not demand.*

4. (3 points) Standard feedback questions:

- (a) Out of ten, my level of comprehension of the material covered this week is:
- (b) My favorite topic of the week was:
- (c) The topic I understood the least this week was: