

ASSESSED WORK COVER SHEET

Module code and title:.....

Family Name: Given Names:.....
(BLOCK CAPITALS) (BLOCK CAPITALS)

Registration number:

Please read the following carefully:

In signing this cover sheet you confirm:

1. That the attached work complies with University regulations governing academic offences, in particular regulations 6.20 and 6.21. Please follow the link, Information and Publications, from the University's website, to University Regulations, Policy and Procedures, to Academic Offences Procedures.
2. That you are aware of the guidelines set out in the Undergraduate/Postgraduate Economics Handbook (as appropriate), and in particular that:
 - (a) You have read and understood **A Guide to Good Practice in Assessed Work** in the Undergraduate/Postgraduate Economics Handbook.
 - (b) All material copied from any other source is referenced in accordance with the guidelines set out in the Undergraduate/Postgraduate Economics Handbook.
 - (c) You have acknowledged the assistance of other people who have contributed substantively to your submitted work.
 - (d) You have acknowledged any overlap between the present submission and other assessed work either at the University of Essex or elsewhere.
3. That you are aware of the University of Essex Code of Practice on intellectual property rights (see the Undergraduate or Postgraduate Economics Handbook or the University website. Go to Information and Publications, from the University's website, to University Regulations, Policy and Procedures and then to Regulations relating to Academic Affairs.

The following statement must be signed:

I confirm that I take personal responsibility for complying with the University regulations governing academic offences and that I consent for my submission to be processed in the context of the JISC Plagiarism Detection Service.

Signed: Date:

If you have worked closely with another student or sought advice from a proof reader in the preparation of this assessed work please ask that person to complete the below section:

Name:..... Signed:.....

A copy of this sheet must be attached to each Term Paper, Assignment, Project or Dissertation submitted in the Department of Economics.

EC111 – INTRODUCTION TO ECONOMICS

ASSIGNMENT 1

This assignment is to be handed in to Room 5B.209 **BEFORE 12.00 NOON on MONDAY 28th November, 2011**, you will receive an electronic receipt. You should **NOT** hand in assignments to your class teacher. Please note that the University has a zero tolerance policy for late submission of coursework. Therefore all assignments submitted after the deadline will receive a mark of zero. See page 53 of the Undergraduate Economics Handbook for details.

Please make sure that your **NAME** and that of your **CLASS TEACHER** are printed clearly on the front page of your assignment.

This assignment is divided into two sections. Each is worth 50% of the marks. Write your answers in the spaces provided; do **not** include any other sheets. You should answer all questions. No marks will be award for those parts of answers which exceed the space limits.

Please write your answers **CLEARLY**.

CLASS TEACHER'S NAME:
(Block capitals only)

YOUR NAME:
(Block capitals only)

3) At a point on a straight-line demand curve where demand is elastic, total expenditure on the good will fall as the price increases.

4) An individual consumes two goods that are perfect complements. A fall in the price of one of these goods will not cause him to consume more of it.

5) An individual spends all her income on two goods, X and Y. The price of X falls but this individual buys the same amount of X as previously (income and the price of Y remain the same as before). Y must be a normal good.

6) A lottery charges £10 for a ticket and pays a prize of £100 on one in ten of the tickets (where the winning tickets are selected at random). A risk-averse individual will not buy a ticket.

- 7) Adverse selection occurs when an individual takes greater risks if she is covered by insurance.
- 8) A perfectly competitive industry consists of identical firms with 'U' shaped average cost curves. An increase in industry demand has no effect on each of the original firms' output in the long run.

9) If a firm in the long run sets its Marginal Rate of Technical Substitution equal to the ratio of factor prices then it must be maximising its profit.

10) Over the range of output where there are increasing returns to scale, the firm's long run marginal cost curve is downward sloping

Section B (25 marks per question)

- 1) The demand for wheat is $Q^D = 160 - 2P$, and supply is $Q^S = -40 + 2P$ where prices (P) are in pounds and quantities (Q) are in tonnes.
- (a) Find the value of consumer and producer surplus in this market. [5 marks]
 - (b) The government decides to give a subsidy to producers of £20 per tonne on this essential food. How much does consumer and producer surplus change? Calculate the deadweight loss to society and illustrate this on a diagram. [8 marks]
 - (c) Instead of the policy in (b), the government decides to open this market to international trade (previously imports were banned). The world price of wheat is £40 per tonne and world supply is perfectly elastic. Compare the social surplus from this policy with that under (a), and illustrate using a diagram. [7 marks]
 - (d) Is it worth opening trade as in (c) but compensating the farmers as in (b) above? [5 marks]

2) Jim's only source of income is his old age pension which is £100 per week. He spends it all on two goods, food which costs £1 per unit, and heating which costs £2 per unit.

- a) Draw Jim's budget constraint. If he chooses to consume 20 units of heating how much food does he consume? [6 marks]
- b) The price of heating now rises to £2.5 per unit. To what level must the government increase the pension so that Jim can purchase exactly the same combination of goods as in part (a)? [7 marks]
- c) Suppose the government does increase the pension to exactly the level you have given in your answer to part (b).
 - i) Will Jim now consume more, less or the same number of units of heating? [3 marks]
 - ii) Will Jim's utility be higher, lower or exactly the same as compared with the initial situation in part (a)? [3 marks]
- d) From the government's point of view would increasing the pension be a better policy than introducing a subsidy on heating fuel? Explain. [6 marks]

