

PRINCIPLES OF MICROECONOMICS (ECON 1101 SECTION 056)
ASSIGNMENT #6

Due Wednesday, 3 Dec 2008, 5:00 pm. Assignments should be typed and submitted in hardcopy. Calculations may be handwritten but must be neat and professional. Students are welcome to discuss homework in groups, but each student must prepare and submit a unique assignment and note the names of other group members. Answer all parts of all questions.

1. (25 points) Suppose that with some fixed amount of resources, Denmark and Ecuador may produce antibiotics and cotton as follows:

	Antibiotics	Cotton
Denmark	20 capsules	60 yards
Egypt	12 capsules	90 yards

- Draw separate production possibility curves for each country.
 - Calculate the opportunity costs of producing each good in each country.
 - Which country has the absolute advantage in producing antibiotics?
 - Which country has the absolute advantage in producing cotton?
 - Which country has the comparative advantage in producing antibiotics?
 - Which country has the comparative advantage in producing cotton?
2. (25 points) Suppose that with some fixed amount of resources, Germany and Hungary may produce sports cars and sunflower seeds as follows:

	Sports cars	Sunflower seeds
Germany	2 cars	10 bushels
Hungary	1 car	7 bushels

- Calculate the opportunity costs of producing each good in each country.
 - Which country has the absolute advantage in producing sports cars?
 - Which country has the absolute advantage in producing sunflower seeds?
 - Which country has the comparative advantage in producing sports cars?
 - Which country has the comparative advantage in producing sunflower seeds?
3. (20 points) Read “Tariffs and Tortillas.” (2008, Jan. 26) *The Economist*. p. 38.
- What places does the article suggest have a comparative advantage in maize (corn) production?
 - What policies promoted growing corn in places without a comparative advantage? How did the policies promote this?
 - What groups would benefit from the reduction of trade restrictions?
4. (25 points) Suppose the demand for dry whey is given by $P = 41 - 2Q$ and the supply curve is given by $P = 17 + Q$.
- Calculate the competitive equilibrium price, quantity, consumer surplus, and producer surplus.
 - Calculate the after-tax price, quantity, consumer surplus, and producer surplus if a per unit tax of 2 is imposed on the purchaser.
 - Calculate the after-tax price, quantity, consumer surplus, and producer surplus if a per unit tax of 2 is imposed on the purchaser.