CONCORDIA COLLEGE
MOORHEAD, MINNESOTA

- Name: _____
- Date: _____
- Section: _____

BUS 201: Principles of Global Economics

Problem Set #2

Fall 2025

INSTRUCTIONS:

- Write your full name, date, and section clearly at the top of the first page.
- This problem set is designed as a check-in assignment to help you practice the core ideas. It is not intended to be difficult, but you are expected to think carefully about your answers.
- For multiple-choice problems, circle the best answer.
- For short-answer problems, limit your response to no more than 4 sentences. Be concise but complete, and use economic reasoning in your answers.
- You may use your textbook, lecture slides, and personal notes.

Problem 1. Multiple Choice

1.A. The Law of Demand states that, ceteris paribus:

a) Price and quantity demanded move in the same direction
b) Price and quantity demanded move in opposite directions
c) Quantity demanded is fixed when price changes
d) Demand curves are always vertical

1.B. Which event would cause a leftward shift of the supply curve for bread?

a) A technological improvement in bread-baking machinery
b) A fall in the price of wheat
c) A drought that raises the price of wheat
d) Entry of new bakeries into the market

1.C. At a price above equilibrium, there is:

a) A shortage, and price will rise
b) A shortage, and price will fall
c) A surplus, and price will fall
d) A surplus, and price will rise

1.D. Which determinant makes demand more elastic?

a) Fewer available substitutes
b) Broader market definition
c) Shorter time horizon
d) Goods that are luxuries rather than necessities

1.E. When the elasticity of demand equals 1, total revenue:

a) Increases when price increases
b) Decreases when price increases
c) Remains unchanged when price changes
d) Cannot be determined

Problem 1. Multiple Choice (continued)

1.F. If the income elasticity of demand for steak is 1.3, steak is:

a) A normal necessity
b) An inferior good
c) A luxury good
d) A complement

1.G. A binding price ceiling causes:

a) A surplus of the good
b) A shortage of the good
c) No change in equilibrium
d) An increase in producers' willingness to supply

1.H. A price floor set above equilibrium causes:

a) A surplus
b) A shortage
c) No effect
d) A higher equilibrium quantity

1.I. Suppose the government imposes a $3 tax on sellers. The price buyers pay rises by $1.80 and sellers receive $1.20 less. We can infer that:

a) Supply is more elastic than demand
b) Demand is more elastic than supply
c) Both sides have equal elasticity
d) The tax burden is entirely on sellers

1.J. Which of the following would shift market demand for coffee to the right?

a) A fall in the price of coffee
b) A rise in the price of tea, a substitute
c) A decrease in the number of coffee drinkers
d) A fall in consumers' incomes if coffee is normal

Problem 2. Short Answer

2.A. Explain the three-step method economists use to analyze changes in equilibrium. Apply it to this example: the price of imported coffee beans falls. Clearly state which curve shifts, the direction of the shift, and the predicted changes in equilibrium price and quantity.

1. Identify which curve shifts: The supply curve shifts in response to a change in a non-price determinant of supply.
2. Determine the direction of the shift: Since input costs have fallen, the supply curve shifts to the right.
3. Compare the equilibria: The new equilibrium features a lower price and a higher quantity traded.

2.B. A cafe raises the price of lattes from \$4 to \$5 and quantity demanded falls from 200 to 150.

- Compute the price elasticity of demand. Show work.
- Classify demand as elastic, inelastic, or unit elastic.
- State what happens to total revenue when price increases from \$4 to \$5.

The percent change in quantity is calculated as follows:

$$\%\Delta Q = \frac{150 - 300}{300} = -50\%$$

The percent change in prices is calculated as follows:

$$\%\Delta P = \frac{5 - 4}{4} = 25\%$$

The price elasticity of demand is then:

$$E_D = \frac{\%\Delta Q}{\%\Delta P} = \frac{-50\%}{25\%} = -2$$

So, demand is elastic, and total revenue falls.

Problem 2. Short Answer (continued)

2.C. Using a demand–supply diagram, describe the short-run and long-run effects of a rent ceiling set below equilibrium. What happens to the size of the shortage over time, and why? Use the space below for your graph and explanation.

2.D. Why did the 1990 U.S. luxury tax fail to raise as much revenue as expected, and what does this reveal about the elasticities of supply and demand in that market?

The tax targeted high-priced yachts, cars, furs, and jewelry, and lawmakers expected wealthy buyers to bear the cost. In reality, demand was only somewhat inelastic, as wealthy consumers could purchase used goods or shop abroad, while supply was highly inelastic due to the limited number of producers and long production timelines. As a result, producers and workers bore most of the burden, leading to layoffs and factory closures, while tax revenues fell short. The main takeaway is that when supply is less elastic than demand, producers bear the larger share of the tax burden.

- Original Score: _____
- Original Date: _____
- Recovered Score: _____
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