



- Name: \_\_\_\_\_
  - Date: \_\_\_\_\_
  - Section: \_\_\_\_\_
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## **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.

2.B. A cafe raises the price of lattes from \$4 to \$5 and quantity demanded falls from 300 to 150.

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

**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?

• Original Score: \_\_\_\_\_

• Recovered Score: \_\_\_\_\_

• Original Date: \_\_\_\_\_

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