

Writing in Economics—Microeconomics

Choose 2 of the following short answer question to answer on your own paper. You may use your notes and the Economics textbook to assist you in making your arguments. Complete sentences and correct paragraph structure should be used.

Item 1

RCO Ltd. is a UK (United Kingdom) based electronics manufacturer and retailer. Its main products are Netbook computers, PCs and Electronic Calculators. The current price (in U.S. dollars) of the Netbook is \$500, the PC is \$800 and the calculator is \$40. This year the firm sold 10,000 Netbooks, 20,000 PCs and 1 million calculators.

In an attempt to improve revenue the managers of the firm have decided to increase all prices by 10%. Market research has suggested that the price elasticity of demand for each product is: Netbook: (-) 1.5; PC: (-) 2.5; Calculator: (-) 0.6

You have been asked to evaluate the planned price increases.

- Comment on the planned price changes.
- Would a 10% price reduction have been better for some or all of the products?
- What benefit (if any) would advertising bring to the firm?

Item 2

A local firm produces three types of pizza, for delivery to homes in the area. The owners have completed research, to discover the demand curves for each of the three pizzas. The schedules are shown below: (quantities are per week; Qd = quantity demanded; PED = price elasticity of demand).

Price	Pizza A (Qd)	Pizza B (Qd)	Pizza C (Qd)
\$12	800	0	100
\$11	840	0	200
\$10	880	400	300
\$9	920	800	400
\$8	960	1200	500
\$7	1000	1600	600
\$6	1040	2000	700
\$5	1080	2400	800

- Plot the three demand curves, on one graph.
- Calculate PED for all three pizzas over the price range \$9 to \$10.
- For Pizza C only, what price must be charged if the firm wishes to maximize its sales revenue?

Item 3

- a. Carefully explain why a typical demand curve slopes downwards.
- b. Distinguish between normal and inferior goods.
- c. What are the main underlying determinants of demand for the following:
 - I. Vacations in Colorado
 - II. A daily newspaper
 - III. Healthcare

Item 4

The Market for Georgia Mountain Apples

The price of Georgia grown apples is likely to rise in the coming months following the unusually cold and wet conditions during late spring and summer, as reported by a local newspaper last month. Conditions continued to deteriorate following heavy rainfall in August. The result is that yields are some 20% down on previous years for many varieties grown in the North Georgia Mountains. The impact has not been even, with the hardest hit apples growers suffering a 90% reduction in crops compared with average crop sizes. Some supermarkets have already raised the price of apples to around \$2.50 per pound and many are switching to lower priced imports. Manufacturers of tarts and pastries are likely to pass on the rising cost of apple fillings, although the current recession may act as a constraint on the extent to which this will happen.

- a. Using demand and supply analysis, explain how the poor weather conditions are likely to affect the market for Georgia-grown apples.
- b. Why might food manufacturers not pass on the rising cost of fillings to supermarkets?
- c. Assess the likely effect of a fall in incomes on the market for fruit.