Intermediate Microeconomics
Fall 2015

Problem Set 1
Due Lecture 2 in class on paper

1. GLS Chapter 2, Question 14

2. Elasticity

(a) Suppose that house prices increase by 10%, and the total quantity of homes in the market increases by 8%. What is the elasticity of supply of housing? Interpret your answer in the context of a 1% change in home prices.

(b) There is substantial disagreement in the economics profession about the exact magnitude of the housing supply elasticity (note that this is critically important in the policy discussion about rising home prices). One seminal article (Topel and Rosen, 1988) estimates that the elasticity if 1.0 for a one-year change in prices, and 1.7 for an eight-year change in prices. Interpret each elasticity in light of a 1% change in home prices, and give some intuition about why the 8-year elasticity is larger than the one-year elasticity.

3. Give two recent examples of (i) when you have moved along the demand curve and (ii) when your personal demand curve has shifted. Briefly explain why each behavior is a shift or a move along the curve.

4. There have been a number of recent news articles suggesting that President Obama is considering lifting the current U.S. ban the on domestic oil exports. What impact do you think lifting this ban would have on oil prices in the U.S.?

Make your assumptions clear (they can be strong ones), and illustrate your argument with graphs.

—
If you would like additional practice, I suggest working through question 13 (answers in the back of the book).