

ACTIVITY 29**Pricing Problems**

For each of these situations, give an answer of one or two sentences. Then support that answer with sound economic reasoning. In most cases, it would help to use a graph to illustrate your answer.

1. "Gold is valuable because so many people hunt for it." True, false, or uncertain? Why?

2. A consumer group believes the prices of necessities such as food, housing, energy, and medical care should be controlled by the government. "People can afford higher prices for luxuries," they reason, "but all of us, and especially the poor, suffer when the prices of necessities rise." Evaluate the effects of this plan.

3. State Representative Smith feels that New York can raise revenue by increasing license plate and registration fees 500%. With five times the revenue, the state can solve a lot of problems. Is he right? Why or why not?

4. Make the optimistic assumption that one day you will be a college graduate. Would you support a law to raise the legal minimum wage of college graduates to \$50,000?

5. Recently the price of beef rose. By drawing graphs, show that the rise in price could be consistent with the following:
 - a. The quantity of beef consumed falling.
 - b. The quantity of beef consumed rising.
 - c. The quantity of beef consumed staying the same.Be sure to draw a graph for each situation and provide a brief explanation of each situation.

ACTIVITY 29 continued

6. A lobbyist for the Dairy Association of America is asked to comment on how the elimination of the government's milk price-support program would affect the price of milk. Her statement follows:

The elimination of price supports would, in our opinion, result in an increase in milk prices within 2 months. Certainly, the immediate effect would be to reduce prices. But as prices fall, demand would increase. We believe this increase in demand would be so strong that within 2 months prices would be higher.

Comment on the lobbyist's argument.

7. Recently the Franklins asked a realtor to show them houses for sale in their town. The Franklins bought a house that the realtor showed them. They complained to the realtor after purchasing the house, "We can't understand why realtors get 6% of the purchase price as a fee. All you did was drive us to a few houses and show us around. It's outrageous!" Comment on the Franklins' complaint.

8. Illustrate the following situations on a graph:

- The legalization of narcotics.
- The U.S. government purchased the entire cocaine supply in Colombia.
- Enforcement of drug laws is aimed at pushers.
- Enforcement of drug laws is aimed at users.

Be sure to explain your graphs.

9. You learn that a prominent economist is going to give a lecture and you rush to get tickets. The economist says, "We economists don't know much, but we know how to create shortages and surpluses."
- How can government create a shortage in a competitive market? Illustrate this with a graph. Can you provide examples of this?
 - How can government produce a surplus in a competitive market? Illustrate this with a graph. Can you provide examples of this?