PRINCIPLES OF MICROECONOMICS, SEMESTER 1 2016

Tutorial 1 (Week 2)

Q1. What is the economic problem?

Unlimited wants v. finite resources

Q2. What is the difference between normative analysis and positive analysis?

Positive analysis is objective analysis and can be proved with facts - it is about what 'is', or what 'will' be.

Normative analysis is subjective analysis, and whilst facts may be used to argue a case, ultimately it is opinion or value-based - it is about what 'should' be.

Q3. A firm is seeking to hire a new employee, and has made a shortlist of two employees who are equally productive - Ben and Maria. Maria is willing to work for K8 an hour, whereas Ben is willing to work for K6 an hour. The firm chooses to hire Ben.

a. Is the firm's decision economically rational? Why / why not?

Yes, for obvious reasons! ☺

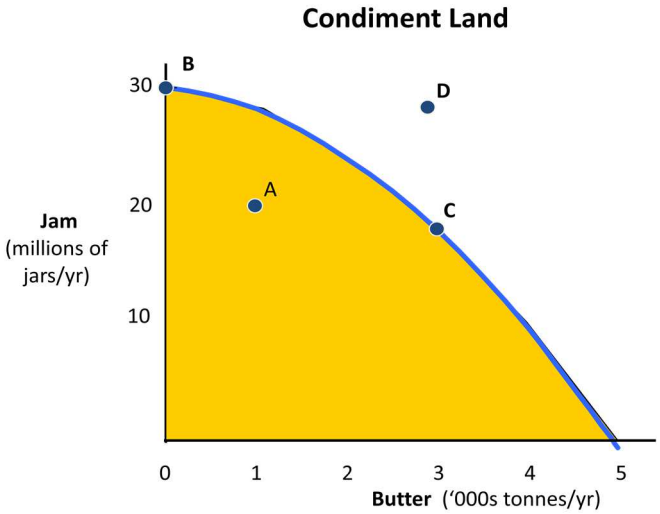
b. What type of efficiency does the firm's decision illustrate?

Productive efficiency

Q4. Solomon has a job for which he earns a wage of K10,000 a year. He leaves the job to start his own business. Given this information, what can we conclude about the opportunity cost for Solomon in starting his own business?

Solomon's opportunity cost is *at least* K10,000 a year.

Q5.



a. At which of the point/s in the graph above is it possible for Condiment Land to produce at? A, B, C

b. At which of the point/s is it efficient for Condiment Land to produce at? What type of efficiency is this? B, C

c. At which of the point/s is it impossible for Condiment Land to produce at? D

d. Assume that point C is at (3, 18), and the economy of Condiment Land is at point C. What is the opportunity cost of increasing the production of jam by 12 million jars a year?
3,000 tonnes of butter a year

e. What can you say about the opportunity cost as we move from B to C? It is **increasing** (in terms of jam)

f. Condiment Land discovers a more efficient way of making jam jars. What would you expect to happen to the PPC of Condiment Land?

It would expand outwards along the y-axis (jam), but not along the x-axis (butter)