PRINCIPLES OF MICROECONOMICS, SEMESTER 1, 2016

Tutorial 5 (Week 6)

Q1. Explain what effects the following would have upon the Papua New Guinean (aggregated) market for labour, including what conclusions we can make about the effect upon the equilibrium price and quantity:

a. An increase in the number of workers with tertiary education

b. An increase in company tax

c. The Papua New Guinean parliament repeals the law which allowed New Zealanders to enter and work in the country

d. An increase in the Papua New Guinea's terms of trade

e. The government introduces unemployment benefits

f. The cost of leisure become cheaper

Q2. Kitara is the latest person to be hired to work in a restaurant, and she earns 5 Kina an hour. Her friend Abbie calculates that Kitara's marginal revenue product of labour (MRP_L) is K10. She tells Kitara that according to the Marginal Productivity Theory of Income, Kitara should really be earning K10, and that she should talk to her boss. Is Abbie's argument economically sound? Why / why not?

Q3. What is the difference between production in the short-run and long-run? Is the amount of time that separates the short-run from the long-run the same for every firm?

Q4. Consider an Italian restaurant business. Categorise each of its following costs as either fixed costs or variable costs:

a. wages paid to waiters

b. dinner tables

c. pizza dough

d. rent on the building

e. advertising costs

Q5. Mohammed owns a barber shop which earned him zero economic profit this year. He is now considering his future - should he stay in business?

Q6. SP Brewery is worried about their beer business because of increasing costs. Assuming that they cannot grow any further in the beer market, what strategy could they adopt to reduce average total costs that does not lead to a reduction in their output of beer?