**Assignment 1**

**ECON201 (1st Term 2021-2022)**

**Deadline: 18/10/2021 @ 23:59**

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| --- | --- |
| Course Name: **Macroeconomics** | Student’s Name: |
| Course Code: **ECON201** | Student’s ID Number: |
| Semester: **I** | CRN: |
| **Academic Year: 1442/1443 H, 1st Term** | |

**For Instructor’s Use only**

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| --- | --- |
| Instructor’s Name: Eman Alshami | |
| Students’ Grade: **/ 5** | Level of Marks: **High/Middle/Low** |

**Instructions – PLEASE READ THEM CAREFULLY**

* This assignment is an individual assignment.
* Due date for Assignment 1 is by the end of Week 6 (18/10/2021)
* The Assignment must be submitted only in **WORD format** via allocated folder.
* Assignments submitted through email will not be accepted.
* Students are advised to make their work clear and well presented, marks may be reduced for poor presentation. This includes filling your information on the cover page.
* Students must mention question number clearly in their answer.
* Late submission will NOT be accepted.
* Avoid plagiarism, the work should be in your own words, copying from students or other resources without proper referencing will result in ZERO marks. No exceptions.
* All answered must be typed using **Times New Roman (size 12, double-spaced)** font. No pictures containing text will be accepted and will be considered plagiarism).

**Submissions without this cover page will NOT be accepted**.

**Assignment Purposes/Learning Outcomes:**

After completion of **Assignment-1** students will able to understand the

**LO 1.1:** Define the institutional framework of macroeconomic policymaking.

**Assignment 1 Questions: Week 1 to Week 5:** - **[5 Marks]**

**Q1.** Illustrates the market for chocolate bars has the following demand and supply

schedules: **[1.5 Marks]**

|  |  |  |
| --- | --- | --- |
| Price | Quantity Demanded | Quantity Supplied |
| $3 | 111 | 26 |
| $4 | 100 | 53 |
| $5 | 80 | 80 |
| $6 | 64 | 92 |
| $7 | 51 | 111 |
| $8 | 37 | 120 |

1. Graph the demand and supply curves. What is the equilibrium price and quantity in this market?
2. If the actual price in this market were above the equilibrium price, what would

drive the market toward the equilibrium?

1. If the actual price in this market were below the equilibrium price, what would

drive the market toward the equilibrium?

**Q2.** Illustrates the market for pizza is characterized by a downward-sloping demand curve

and an upward-sloping supply curve. **[1.5 Marks]**

1. Draw the competitive market equilibrium. Label the price, quantity, consumer

surplus, and producer surplus. Is there any deadweight loss? Explain.

1. Suppose that the government forces each pizzeria to pay a $1 tax on each pizza sold. Illustrate the effect of this tax on the pizza market, being sure to label the consumer surplus, producer surplus, government revenue, and deadweight loss. How does each area compare to the pre-tax case?
2. If the tax were removed, pizza eaters and sellers would be better off, but the

government would lose tax revenue. Suppose that consumers and producers voluntarily transferred some of their gains to the government. Could all parties (including the government) be better off than they were with a tax? Explain using the labeled areas in your graph

**Q3**. Suppose that a market is described by the following supply and demand equations:

**[2 Marks]**

QS = 2P

QD = 300 – P

1. Solve for the equilibrium price and the equilibrium quantity.
2. Suppose that a tax of T is placed on buyers, so the new demand equation is

QD = 300 – (P + T).

Solve for the new equilibrium. What happens to the price received by sellers, the price paid by buyers, and the quantity sold?

1. Tax revenue is T X Q. Use your answer to part (b) to solve for tax revenue as a function of T. Graph this relationship for T between 0 and 300.
2. The deadweight loss of a tax is the area of the triangle between the supply and

demand curves. Recalling that the area of a triangle is 1 ⁄2 x base x height, solve for deadweight loss as a function of T. Graph this relationship for T between 0 and 300. (Hint: Looking sideways, the base of the deadweight loss triangle is T, and the height is the difference between the quantity sold with the tax and the quantity sold without the tax.)

1. The government now levies a tax on this good of $200 per unit. Is this a good

policy? Why or why not? Can you propose a better policy?

**Answer:**