ECO101H1F: Principles of Microeconomics,Winter 2021
Assessment 1 Questions and Solutions

9PM (Evening) Sitting

E1. [22 points] Assume that the market for paper notebooks on the island of Jersey is perfectly competitive. Demand is downward sloping and supply is upward sloping. All consumers and firms are identical. Jersey's population is 100,000 people, all of whom are consumers in the notebook market.

a) [7 points] A recession in Jersey has lowered incomes, all else stays the same.

Claim: this will lower the market price of notebooks in Jersey. Agree, Disagree or It depends?

Explain your reasoning. A diagram is not an explanation. Your explanation needs to be sufficient without a diagram.

Solution: A change in income will change the demand. For the same price the quantity demanded will be higher if notebooks are an inferior good and lower if it is normal. If demand decreases (normal) then price and quantity decrease. If demand increases (inferior) then price and quantity increase.

b) [8 points] Firms producing notebooks also produce paper advertising flyers. Due to the lockdown, firms no longer advertise as much and demand for flyers has decreased. What is the predicted impact of the change in the advertising flyer market on market price and quantity in the notebook market. Explain your reasoning. A diagram is not an explanation. Your explanation needs to be sufficient without a diagram.