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

7AM (Morning) Sitting

M1: [25 points] Assume that the market for soap in Cintra is perfectly competitive. Demand is downward sloping and supply is upward sloping. All consumers and firms are identical.

a) [7 points] The government introduces a requirement that firms must make soap from biodegradable material only. Firms now need to use more costly ingredients to produce soap. What is the predicted impact of this restriction on market price and quantity in the Cintra soap market? Explain your reasoning. A diagram is not an explanation. Your explanation needs to be sufficient without a diagram.

Solution: The new requirement increases the Marginal cost at every quantity. This moves the supply curve up and in. When the demand curve stays the same, this increases price and decreases market quantity.

b) [8 points] Data from the 2021 flu season shows a decrease in both market price and market quantity in the Cintra soap market. Over this same period, the price of hand sanitizer fell.

Claim: The change in the price of hand sanitizer could explain the changes in the soap market.

Agree, Disagree or It depends? Explain your reasoning. A diagram is not an explanation. Your explanation needs to be sufficient without a diagram.

Solution: Hand sanitizer is a substitute for soap during flu season. A decrease in the price of hand sanitized