Problem Set 2

1. Taiwan is a major world supplier of semiconductor chips. A recent earthquake severely damaged the production facilities of Taiwanese chip-producing companies, sharply reducing the amount of chips they could produce.

   a. Assume that the total revenue of a typical non-Taiwanese chip manufacturer rises due to these events. In terms of an elasticity, what must be true for this to happen? Illustrate the change in total revenue with a diagram, indicating the price effect and the quantity effect of the Taiwan earthquake on this company's total revenue.

   b. Now assume that the total revenue of a typical non-Taiwanese chip manufacturer falls due