Youngberg

Econ 280

**Homework 01**

Answer all the following on a ***typed, stapled*** (if applicable)separate sheet of paper. Make sure that you justify your answers, use your own words, and show your work. All questions are equally weighted.

1. Perhaps the largest transformation of human society was the transition from hunter-gathering (foraging) to farming. Farming enable people to generate large quantities of food which meant not everyone had to spend their day looking for sustenance. Priests, soldiers, porters, and craftsmen all appeared. They gathered in towns, which grew over time. They traveled to other towns to trade. They became safer and wealthier. Employing ideas from both Adam Smith and David Ricardo, explain how farming made society wealthier. Also explain how larger towns and trading with other towns further expanded that wealth.
2. Sanjay’s majoring in psychology when he takes his first economics class. So enamored with the discipline, he wants to change his major. However, he’s already taken several psychology classes. “I’ve gotten this far,” he says after much consideration, “so I might as well keep majoring in psychology.” Briefly describe what mistake Sanjay is making. Be sure to mention and define the relevant technical terminology when answering this question.
3. Describe a time in your life when you made a specialized investment (it would be helpful to review the definition of “specialized investment” from the lecture notes). Also indicate which kind of specialized investment it is closest to. Justify your answer.
4. For each of the following goods, indicate if the demand is more elastic or inelastic than the good in parenthesis. Justify your answer with ***no more*** than two sentences (one sentence should suffice).
   1. Textbooks from the campus bookstore before the internet (versus textbooks from the campus bookstore after the internet)
   2. Lunch when you’re very hungry (versus lunch when you’re not hungry)
   3. A large house (versus a small apartment in the same area)
   4. Fruit (versus food)
   5. A car today (versus a car next year)
5. Suppose, at a price of $10 each, the market demands 3,000 pies. Using the arc price elasticity method calculate elasticity for each of the following price and quantity combinations and indicate if the result is elastic, inelastic, or unit elastic.
   1. P = $5; Q = 7,500
   2. P = $11; Q = 2,800
   3. P = $8; Q = 3,750
   4. P = $2; Q = 10,000