Youngberg

Econ 280

**Homework 02**

Answer all the following on a ***typed, stapled*** (if applicable)separate sheet of paper. You do not need to type equations and graphs. I charge 25 cents to staple your homework. Make sure that you justify your answers, use your own words, and show your work. All questions are equally weighted.

1. In the following pairs of goods, indicate which good in the pair has the more elastic ***supply*** curve. Justify your answer.

|  |  |  |
| --- | --- | --- |
| a) | Microwaves next week | Microwaves next month |
| b) | iPhone | Calculator |
| c) | All sedans | Toyota Camry |
| d) | Potatoes in Dublin, Ireland | Potatoes in Europe |

1. Shannon runs the charity Good Housekeeping which focuses on removing unseemly homes (thereby increasing the value of the other homes in the neighborhood). Each year, her charity purchases dozens of poorly kept homes from existing buyers and demolishes them, leaving a pleasant green space in its place for resale to an owner with better taste. Good Housekeeping’s slogan? “Like a good neighbor, we remove the bad ones.” How successful will Good Housekeeping be in removing unseemly homes from neighborhoods? Justify your answer using elasticity of supply.
2. Provide an example of each degree of price discrimination. ***Briefly*** justify your answer. Do not use examples from class or the textbook!
3. Consider this passage on French railways in the mid 1800s:

Hence, a good many people, on seeing travelers in third class, traveling without a roof over the carriage, on poorly upholstered seats, they denounce the barbarity of the railways. It would cost very little, they say, to put some meters of leather and kilos of horse-hair [on the seats], and it is beyond greed to withhold them.

It is not because of the several thousand francs which they would have to spend to cover the third class wagons or to upholster the benches that a particular railway has uncovered carriages and wooden benches; it would happily sacriﬁce this for the sake of its popularity. Its goal is to stop the traveler who can pay for the second class trip from going third class. It hurts the poor not because it wants them to personally suffer, but to scare the rich.

—Jules Dupuit, 1849

Dupuit notes that accommodations in third class are purposely made worse in order to “scare the rich.” How does this interpretation of railway operations illustrate price discrimination?

1. For each of the following examples of price discrimination, indicate which type of price discrimination it most resembles (see Lecture 5). Justify your answer with ***no more*** than two sentences.
   1. Buying chapters assembled as a textbook rather than buying them individually.
   2. Charging more for electricity during times of the day when energy demand is high.
   3. Getting Adobe Acrobat Reader for free while being charged for the advanced version.
   4. Costco charging a flat rate to buy from their store and then separately charging customers for each item they buy.