

Homework 2
Principles of Economics
Prof. Sarah West
Spring 2011
30 total points

1. **(4 points)** Chapter 4, page 87, problem 4.
2. **(4 points)** Chapter 4, page 87, problem 8.
3. **(4 points)** Chapter 4, page 88, problem 15.
4. **(4 points)** Chapter 5, page 110, problem 8.
5. **(6 points)** Consider the following excerpts from “Housing Market Heats Up Again in New York City,” by Tracie Rozhon, *New York Times*, February 19, 2007:

Since the new year began, a burst of activity has broken out in Manhattan and several Brooklyn neighborhoods as New Yorkers frenetically hunt for co-ops, condominiums and town houses...

With higher Wall Street bonuses, a strong regional economy and pent-up demand from New Yorkers who were once worried that the city’s real estate market would crash, buyers’ attitudes have done an about-face. “Their psychology has changed,” said Frederick W. Peters, the president of the Warburg Realty Partnership.

Across the board, the prices of Manhattan apartments are rising. Jonathan Miller, the president of Miller Samuel, an appraisal firm, said the number of contracts signed this January was 19.4 percent higher than in January 2006. Prices were up 14.4 percent in the same time period.

- a. Use a graph to explain what happened in the New York housing market. Be sure to explain how the market returns to equilibrium.
 - b. You can use the numbers in the article above to calculate a price elasticity. What kind of elasticity can you calculate? What is the value of that elasticity?
 - c. If 4,000 contracts were signed in January 2006, how many contracts were signed in January 2007? Be sure to use the midpoint formula.
6. **(6 points)** Consider the following excerpts from the article, “Las Vegas Sags and Conventions Cancel,” by Steve Friess, *New York Times*, February 14, 2009.

This city’s reputation as freewheeling and anything goes may have made it the champion of convention markets. But the city’s image — so successfully cultivated in the “What Happens Here, Stays Here” advertising campaign — is not squaring with the new era of fiscal restraint brought on by the economic crisis.

“It’s certainly a moment we should all pay great attention to,” said Jan L. Jones, senior vice president for Harrah’s Entertainment, which had a 30 percent decline in convention business in January compared with a year ago at its seven resorts on the Strip.

a. Use a graph to explain what happened in the market for convention services (hotel rooms, meals, etc.) in Las Vegas. What would you expect to happen to the price of such services? Be sure to explain how the market returns to equilibrium.

b. An economist tells you that the price elasticity of demand for convention services in Las Vegas is -1.20 and the price elasticity of supply for convention services is 0.20 . By what percentage would we expect prices to change as a result of the market phenomenon discussed in the article? Explain.

7. **(6 points)** Find an article on that deals with supply and demand from a periodical or major magazine. Graph the phenomenon described by the article (with price on the y-axis and quantity on the x-axis). Include a copy of your article with your homework.