ECNS 204
Snowmester 2020
Quiz 1 (answers)

1.) Economics professor salaries are generally higher at comparable universities in the Midwest and in the South than at Montana State University. In terms of the economic postulates, does this make sense?
a.) No, it is likely that market forces have nothing to do with economics professor salaries.
b.) Yes, this simply represents the fact that people have preferences and seem to prefer the amenities of Bozeman over those in the Midwest or South.
c.) No, it is hard to make sense of this because the cost of living in Bozeman is so high.
d.) Yes, because the professors at Montana State University are likely of lower quality than professors elsewhere.

2.) Consider Jill's marginal value schedules for days spent fly fishing and days spent ice climbing during one season:

# of days	$MV_{fishing}$	$MV_{climbing}$
1	$300	$325
2	250	275
3	175	225
4	150	200
5	120	100
6	80	40
7	40	20

Suppose, on average, it costs Jill $50 to spend a day doing either activity.

a.) How many days will Jill fish and how many will she ice climb?

Ans. She will consume both activities up to the point where P = MV. So, Jill will fish 6 days this season and will go ice climbing 5 days.

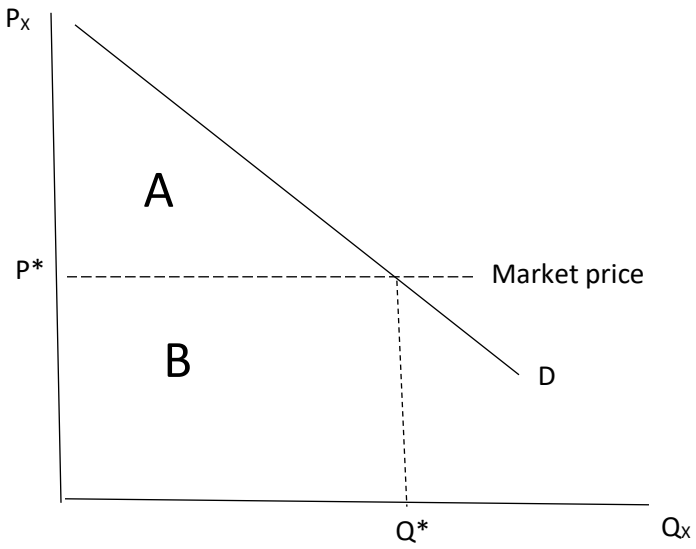
b.) Given your answer in part a.), which activity does Jill value the most?

Ans. $TV_{fishing}$ = ($300-$50) + ($250-$50) + ($175-$50) + ($150-$50) + ($120-$50) + ($80-$50)
= $250 + $200 + $125 + $100 + $70 + $30 = $775

$TV_{climbing}$ = ($325-$50) + ($275-$50) + ($225-$50) + ($200-$50) + ($100-$50)
= $275 + $225 + $175 + $150 + $50 = $875

Despite the fact that Jill climbs fewer days, she receives more in TV from ice climbing.

3.) Consider the following graph for good X, where P* and Q* represent the market equilibrium price and quantity, respectively.



Which of the following is correct?
(Note: CS = consumer surplus, TV = total value, and TE = total expenditure)

a.) Area A = CS; Area B = TV; Area A + B = TE

b.) Area A = TV; Area B = TE; Area A + B = CS

c.) Area A = TE; Area B = CS; Area A + B = TV

d.) Area A = CS; Area B = TE; Area A + B = TV