Quiz #2 (15 points total) answer key
ECNS 204
Snowmester 2020

1.) (5 points) Georges and Matt have the following MV schedules for heads of cauliflower. Georges has an initial endowment of 2 heads of cauliflower and Matt has an initial endowment of 11 heads of cauliflower. How many heads of cauliflower will be exchanged and what are the gains from trade?

Q	MV(Georges)	MV(Matt)
1	10	12
2	9	10
3	8	8
4	7	7
5	6	5
6	5	2
7	4	1
8	2	0
9	1	0
10	.5	0
11	0	0

They trade up to the point where their MVs are equal.

Q = 6 units are traded.

Gains from trade = (8-0) + (7-0) + (6-0) + (5-0) + (4-1) + (2-2) = $29

2.) (5 points) Consider the following three goods: (i) chocolate (in general), (ii) dark chocolate, (iii) Taza brand 87% cacao dark chocolate.

Which of the following lists these three goods in order from least to most elastic (i.e., from inelastic to elastic):

a.) chocolate, dark chocolate, Taza brand 87% cacao dark chocolate
b.) dark chocolate, chocolate, Taza brand 87% cacao dark chocolate
c.) Taza brand 87% cacao dark chocolate, chocolate, dark chocolate
d.) Taza brand 87% cacao dark chocolate, dark chocolate, chocolate

The answer is a.). Chocolate in general will have the fewest substitutes and, hence, the most inelastic demand. Taza chocolate is the most specific of the three goods and, hence, will have the most elastic demand.

3.) (5 points) In a perfectly competitive market with many buyers and sellers, are the marginal values of all people trading equal?

a.) No, not everyone has the same marginal value for a particular good. We all face different demand curves.
b.) Yes, because all individuals trade up to the point where P = MV, then they all have the same MV. However, this does not mean they will buy or sell the same amount.
c.) Yes, because all individuals trade up to the point where P = MV, then they all have the same MV. This also implies that they will buy (or sell) equivalent amounts.

The answer is b.)