

ECON10004: INTRODUCTORY MICROECONOMICS

ASSIGNMENT 2 – SEMESTER 1, 2017

(Due: Monday, May 08, 14:00)

- Assignments must be submitted via the LMS subject webpage
- Remember to keep a copy of your assignment
- This assignment will account for 10% of your final grade in the subject
- Limit: 1000 words (diagrams do not count towards the word limit)
- Plagiarism will not be tolerated (refer to Section J of the Subject Guide for details)

QUESTION

Take, as an example, the world market for a mineral of your choice (e.g. iron ore, coal etc.) and assume that individual mining firms are price takers. Develop an economic model, including appropriate diagrams, to assess the effects of a technological change (which must be properly referenced), on firm decisions and world market outcomes. In your answers, assume that the world market is the only relevant market for the industry.

Suggested answer format:

- (a) Brief description of the industry and its competitive structure, and of the new technology. [2 marks]
- (b) Base case scenario of long-run equilibrium for industry and a typical or representative mining firm. [3 marks]
- (c) How technology changes production function and cost curves, and thus, firm decisions and market outcomes in the short run. [6 marks]
- (d) Further adjustments over the longer run to reach a new long-run equilibrium. Some challenges and options here on nature of long run firm and industry supply. [6 marks]
- (e) Comparison of decision changes and market outcome changes as we move from (b)-(d). Also include discussion of distribution of the benefits of the new technology. [3 marks]