

Major Assignment

Semester 2, 2017

Unit: TECO101 Principles of Microeconomics

Due Date: By 10:30 am Monday, 11th September, 2017

Total Marks: 100 marks (20%)

Number of Questions: Four (4) Questions

Instructions: All questions should be attempted.
The marks of each question would be awarded based on your understanding of the questions, concepts, procedures and use of graph; hence you should demonstrate your answers step by step.

**PLEASE READ THIS DOCUMENT CAREFULLY BEFORE YOU
BEGIN, SO YOU DO NOT LOSE MARKS.**

INSTRUCTIONS TO FOLLOW:

The assignment should be a professional document. Only use A4-size white paper with **TYPED** answers on **SINGLE-SIDED** pages.

Marks:

The assignment is worth 20% of the total mark for the unit. The marks awarded will depend on the quality of the reasoning exhibited and the ability to express the argument in a concise manner.

Due date:

The assignment must be submitted in hard copy by **10:30am Monday, 11th September, 2017**.

Late submission – it is TOP policy that assignments cannot be submitted late without prior approval of the unit coordinator and only in extenuating circumstances supported by evidence. Assignments submitted late without prior approval will not be graded.

Cover sheet:

Use the cover sheet provided on Moodle System. All relevant details requested on this sheet must be supplied (in particular, your subject code **TECO101** and **your tutor's name**). Each student must sign the statement on the cover sheet to acknowledge that the work submitted is the student's own work.

YOU WILL NOT RECEIVE YOUR MARK IF

1. your assignment is missing this cover sheet,
2. important information is missing, and
3. you did not sign the acknowledgement on the cover sheet.

HOW TO SUBMIT YOUR ASSIGNMENT

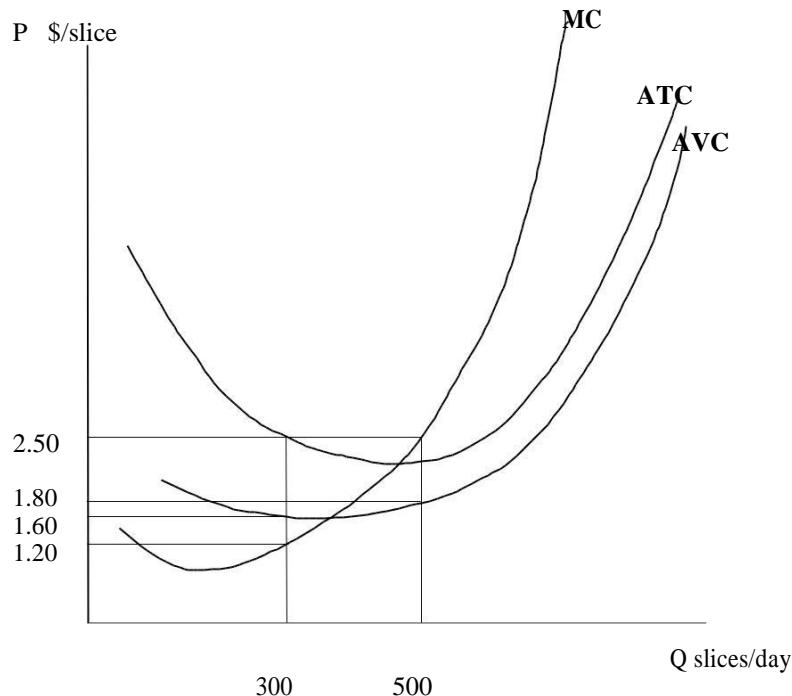
A hardcopy of the WHOLE completed assignment of each question with coversheet must be submitted to your Lecturer or Tutors in the class.

At the same day by 11:55pm, **you MUST submit an electronic copy through TURNITIN on Moodle** for checking plagiarism. Failure to submit it may result in a zero mark for the entire assessment.

You **MUST** ensure that all pages are securely and properly fastened with staples (not paper clips!) and submitted **WITHOUT** a folder. Do **NOT** include this document in your assignment when submitting. You **MUST** keep a copy of the assignment you submit.

Question 1 (25 marks)

For the pizza seller whose marginal, average variable and average total cost curves are shown in the diagram,



What is the profit-maximising level of output and how much profit will this producer earn if the price of pizza is \$2.50 per slice?

Question 2 (25 marks)

Think about the demand for the three popular game consoles: XBox, PS3, and Wii. Using supply and demand diagrams to illustrate your answers, what is the effect on the demand for XBox games or the quantity demanded of XBox games (other things remaining the same) as a result of the following:

- The price of an XBox falls?
- The prices of a PS3 and a Wii fall?
- Programmers who write code for XBox games become more costly to hire?

Question 3 (25 marks)

In an hour, Kim can produce 50 pies or 400 cakes, and Liam can produce 150 pies or 300 cakes.

- If Kim and Liam spend 30 minutes of each hour producing pies and 30 minutes producing cakes, how many pies and cakes does each of them produce?

- b) Who has a comparative advantage in producing pies, and in producing cakes?
- c) If Kim and Liam specialise and trade, what is the highest price of a pie at which Kim and Liam would agree to trade pies and cakes? What are the gains from trade?

Question 4 (25 marks)

Suppose that United Airlines and American Airlines are the only air carriers that serve between New York and Boston. Each currently earns a profit of \$6,000 per flight on this route. If United increases its advertising spending in this market by \$1,000 per flight, and American spends no more on advertising than it does now, United's profit will rise to \$8,000 per flight and American's will fall to \$2,000. If both spend \$1,000 more on advertising, each will earn an economic profit of \$5,500 per flight. These payoffs are symmetric, so that if United spends the same amount on advertising while American increases its spending by \$1,000, United's economic profit will fall to \$2,000 per flight and American's will rise to \$8,000.

- a) Develop the payoff matrix.
- b) Does each player have a dominant strategy?
- c) What are the potential equilibriums?
- d) Is this game a prisoner's dilemma? Explain