Microeconomics for Public Policy I
Fall 2020

In-Class Problems for Lecture 3[1]

1. Imagine you are the author of a book who gets a royalty payment of 10% of the total receipts (receipts = the number sold X the price) from the sale of the book. You get a phone call from your publisher telling you they are increasing the price of your book from $25 to $30. Should you be happy about this? Why or why not? What assumptions are you making about the change in quantity demanded in your answer? What elements of a good, in this case the book, will determine whether your assumption is valid?

2. How is a coupon different from just lowering the price of the good? What advantage is there to the seller from giving out coupons rather than lowering the price? What is probably true of those who look for and use the coupon? What is probably true of those who buy the good without a coupon?

3. Why is it unusual to see coupons for products like a specific Harry Potter book?

4. Give an example of a normal good, an inferior good, and a luxury good. Explain your reasoning.

5. How does the discussion in questions 2 and 3 relate to why you can purchase a ticket to fly on the very same flight on the very same plane for less if you buy it a month in advance than if you buy it three days before, and if you stay over a Saturday night?

6. Chapter 2, Question 21 (2nd edition: Chapter 2, Question 19)

7. What do you think is the sign of the cross-price elasticity for peanut butter and jelly?

8. Finding and interpreting elasticity

Look at the estimates of elasticity presented in this policy brief.
Choose a high and low elasticity product. Make sure that you can use the definitions of elasticity we've discussed to explain why the product with the high elasticity is higher.

[1] Thanks to Steve Horwitz, from whose worksheet I have directly taken some of these problems.