These are practice problems and I am a little confused on the graphing.

**Problem #1**

Suppose that the supply schedule of Maine lobsters is as follows:

Price of lobster Quantity of lobster supplied

(per pound) (pounds)

$25 $800

$20 $700

$15 $600

$10 $500

$5 $400

Suppose that Maine lobsters can be sold only in the United States. The U.S. demand schedule for Maine lobsters is as follows:

Price of lobster Quantity of lobster demanded

(per pound) (pounds)

$25 $200

$20 $400

$15 $600

$10 $800

$5 $1,000

a. Draw the demand curve and the supply curve for Maine lobsters. What is the equilibrium price and quantity of lobsters?

Now suppose that Maine lobsters can be sold in France. The French demand schedule for Maine lobsters is as follows:

Price of lobster Quantity of lobster demanded

(per pound) (pounds)

$25 $100

$20 $300

$15 $500

$10 $700

$5 $900

b. What is the demand schedule for Maine lobsters now that French consumers can also buy them? Draw a supply and demand diagram that illustrates the new equilibrium price and quantity of lobsters. What will happen to the price at which fishermen can sell lobster? What will happen to the price paid by U.S. consumers? What will happen to the quantity consumed by U.S. consumers?

**Problem #2**

The small town of Middling experiences a sudden doubling of the birth rate. After three years, the birth rate returns to normal. Use a diagram to illustrate the effect of these events on the following.

**a.**The market for an hour of babysitting services in Middling today

**b.** The market for an hour of babysitting services 14 years into the future, after the birth rate has returned to normal, by which time children born today are old enough to work as babysitters

**c.** The market for an hour of babysitting services 30 years into the future, when children born today are likely to be having children of their own

**Problem #3**

As noted in the text, European governments tend to make greater use of price controls than does the American government. For example, the French government sets minimum starting yearly wages for new hires who have completed *le bac,* certification roughly equivalent to a high school diploma. The

demand schedule for new hires with *le bac* and the supply schedule for similarly credentialed new job seekers are given in the accompanying table. The price here—given in euros, the currency used in France—is the same as the yearly wage.

|  |  |  |
| --- | --- | --- |
| **Wage**  **(per year)** | **Quantity demanded**  **(new job offers**  **per year)** | **Quantity demanded**  **(new job offers**  **per year)** |
| €45,000 | 200,000 | 325,000 |
| 40,000 | 220,000 | 320,000 |
| 35,000 | 250,000 | 310,000 |
| 30,000 | 290,000 | 290,000 |
| 25,000 | 370,000 | 200,000 |

**a.** In the absence of government interference, what is the equilibrium wage and number of graduates hired per year? Illustrate with a diagram. Will there be anyone seeking a job at the equilibrium wage who is unable to find one—that is, will there be anyone who is involuntarily unemployed?

**b.** Suppose the French government sets a minimum yearly wage of €35,000. Is there any involuntary unemployment at this wage? If so, how much? Illustrate with a diagram. What if the minimum wage is set at €40,000? Also illustratewith a diagram.

**c.** Given your answer to part b and the information in the table, what do you think is the relationship between the level of involuntary unemployment and the level of the minimum wage? Who benefits from such a policy? Who loses? What is the missed opportunity here?

**Problem #4**

For the last 70 years the U.S. government has used price supports to provide income assistance to American farmers. At times the government has used price floors, which it maintains by buying up the surplus farm products. At other times, it has used target prices, a policy by which the government

gives the farmer an amount equal to the difference between the market price and the target price for each unit sold. Consider the market for corn depicted in the accompanying figure.

|  |  |
| --- | --- |
| **Price of corn per bushel** | **Quantity of corn bushels** |
| **$5** |  |
| **$4** |  |
| **$3** |  |
| **$2** | **800** |
| **$1** | **1000** |
| **$0** | **1200** |

**a.** If the government sets a price floor of $5 per bushel, how many bushels of corn are produced? How many are purchased by consumers? By the government? How much does the program cost the government? How much revenue do corn farmers receive?

**b.** Suppose the government sets a target price of $5 per bushel for any quantity supplied up to 1,000 bushels. How many bushels of corn are purchased by consumers and at what price? By the government? How much does the program cost the government? How much revenue do corn farmers receive?

**c.** Which of these programs (in parts a and b) costs corn consumers more? Which program costs the government more? Explain.

**d.** What are the inefficiencies that arise in each of these cases (parts a and b)?