

Econ. 1A. Quiz 4 (Sample). Name: _____. ID:
_____.

1. Under what assumptions we can use DD and SS curves to describe the market? [3]

(1)

(2)

(3).

Use DD and SS curves to evaluate the following economic events graphically. **Please state “cause” and “effect” explicitly.**

2. As a result of Iraq invasion, the price of Army boots rises. [3]

Cause:

Effect

3. The price of milk has been rising due to unusually hot summer weather which discourages milk production. (9/16/96, San Jose Mercury News). [3]

Cause:

Effect:

4. Higher chicken prices on the way as producers plan to cut supply by killing off mother hens. (3/23/96, San Jose Mercury News). [3]

Cause:

Effect:

Note for Quiz 4 (sample).

1. Please remember the following key points in Economics.

The objective of economics is to discover and explain **the basic principles (theories)** that govern our economic life. To achieve this goal, Economists seek to **discover** how the economic world works. In pursuit of this goal economists **create** and **test** economic models.

Economics is based on the formulation of *models*. A model is a *theory*.

- (a) An economic model is an *abstract* representation of reality.
- (b) **It is composed of a number of assumptions from which conclusions - predictions - are deduced.**

Up to now, we study three economic models: (1) circular flow model; (2) PPF; and (3) market. For PPF, see page 1 in Lecture note: Chapter 3. For market see page 5 in Lecture note: Chapter 4. [Those assumptions are the answer for question 1 in Quiz 4 (sample).]

2. To answer questions 2, 3, 4, you have to use DD and SS, i.e., draw graph and state Cause and Effect explicitly. Please see pages 6 and 7 in my Lecture Note: Chapter 4.

3. Example:

As a result of Iraq invasion, the price of Army boots rises.

Cause: Iraq invasion \rightarrow $DD \uparrow$, $SS \rightarrow$

Effect: $p \uparrow$, $Q \uparrow$.

