

Short Answer Questions

Chapter 7.

1. Magnus meets you in a coffee shop and excitedly tells you that he has bought tickets for a band he was desperate to go and see and says that the transaction was 'a bargain'. Using the concept of consumer surplus, explain what is meant by the word 'bargain' in this context.
2. What is the relevance of the words 'willingness to pay' in the concept of consumer surplus?
3. Karina works for Silverman Cohen, an investment bank. She receives an enquiry from a recruitment agency looking to 'head hunt' her for a rival investment bank. What factors make up the supply curve for Karina's skills? If she was currently earning €500 000 a year with Silverman and the rival offered her €650 000, what would be her producer surplus?
4. Using a suitable diagram, explain why a rise in price, other things equal, would raise producer surplus.
5. A government wants to cut the incidence of smoking in the country. It imposes a tax of € on a packet of twenty cigarettes. Describe the change in both producer and consumer surplus as a result of this tax. Use a diagram to illustrate your answer and state any assumptions that you make in your analysis.
6. Do you think that ticket touts increase or reduce consumer surplus? Explain your answer.
7. Assume that it is generally accepted that a flu jab at the beginning of winter helps to reduce the number of cases of the illness and that it is a 'good' thing. The government believe that it is currently under-produced. Present a case for subsidising flu jabs for all the population.
8. Why might a market fail to allocate goods in an efficient manner?
9. The auction web site, eBay is an excellent example of both consumer and producer surplus in action. Explain the relevance of these two concepts to people who use this web site.
10. In free markets, are all goods effectively 'auctioned'? Explain your answer.