Social Welfare 553

Problem Set Two

1. This question uses Frank Figure 2.6, which depicts a local apartment rental market. Were this market at equilibrium, 60,000 units would be leased each at a monthly rent of $400.

i. Reproduce the graph (manually or via a copier) and include the rent control ceiling of $400/month

ii. How large is the Metropolis housing shortage when the ceiling is set at $400? Show where you can find that information on the graph.

iii. What would be the impact on the market if the ceiling were raised to $500/month? How many units would be rented? Would there be a shortage? What about $700/month?

iv. Suppose instead of rent controls, the Metropolis government instituted a $200/month housing subsidy to every renting household. What would happen to the market? [show it by moving one of the lines]

v. How much would this $200 subsidy cost on an annual basis?

2. i. Frank, Chapter 3, problem 11 (Eve likes apples…)

ii. Draw your own indifference curves between apples and pairs. Assume that you do not have to consume all fruit in the current time period – think of it as perpetual apple and pear credits at a market of your choice.

3. i. Frank, Chapter 4, problem 1 (Sam spends $6/wk…)

ii. Frank, Chapter 4, problem 2 (Bruce has the same income…)

iii. Frank, Chapter 4, problem 3 (Maureen has the same income…)

4. Frank, Chapter 4, problem 16 (Is the cross-price elasticity…)

5. i. Frank, Chapter 16, Question for Review 2 (Distinguish among the terms…)

iv. Frank, Chapter 16, Question for Review 3 (Why might voters…)