

Problem Set #3

ECNS 204

Due Monday, Sept. 14th by 10am

Submit to shared Dropbox folder or email to TA at alectruax@gmail.com

_____ Name

- 1.) Cain and Fabricio have the following MV schedules for heads of cauliflower.

Q	MV (Cain)	MV (Fabricio)
1	10	12
2	9	10
3	8	8
4	7	7
5	6	5
6	5	2
7	4	1
8	2	0
9	1	0
10	.5	0
11	0	0

- a.) Cain has an initial endowment of 0 heads of cauliflower and Fabricio has an initial endowment of 11 heads of cauliflower. How many heads of cauliflower will be exchanged and what are the gains from trade?
- b.) Now suppose Cain has an initial endowment of 4 heads of cauliflower and Fabricio has an initial endowment of 9 heads of cauliflower. How many heads of cauliflower will be exchanged and what are the gains from trade?
- 2.) In a perfectly competitive market with many buyers and sellers, are the marginal values of all people trading equal? Explain why or why not. Will everyone buy or sell the same amount?
- 3.) “Prices to consumers could be reduced if the profits of the middlemen could be eliminated.” Do you agree? What explains the general absence of truck farmers, who bring their produce to urban centers for direct sale to consumers? (Silberberg and Ellis, Ch. 4, #10)
- 4.) The purchase of ordinary goods and services in the market is often referred to as “voting with dollars.” The analogy is not, in fact, terribly good. To begin with, our endowments of income are different, whereas our political endowments are equal – one vote each. Also, we all get the winner of an election, or the effects of some legislation, whether or not we voted for the winner or favored that bill. Lastly, citizens vote infrequently (as opposed to legislators). (Silberberg and Ellis, Ch. 4, #15)

- a.) What opportunities do individuals have for expressing the intensity of their preferences, in market versus political choices?
- b.) How frequently do exchanges of votes (i.e., “You vote for my person/issue and I’ll vote for yours.”) take place among ordinary citizens relative to such trades among legislators?
- c.) Why do legislators, in particular, engage in vote trading (i.e., “logrolling”). What enables them to do this more than ordinary citizens?
- d.) Consider an issue that is mildly favored by a majority of voters, but strongly opposed by some minority. How would such an issue fare in legislature versus in a referendum to the voters?
- e.) Suppose some law is contemplated. Why is this something of an all-or-nothing choice for consumers, as opposed to ordinary market purchases?