

# Kentucky Class Notes

Earn an A+ with Class Notes  
<http://KyClassNotes.com>  
859.252.NOTE

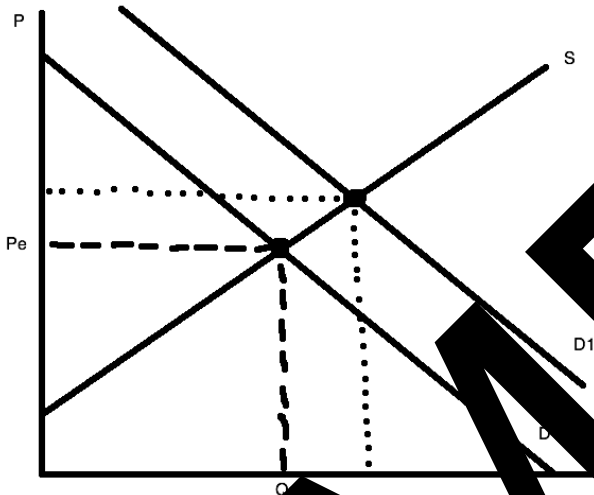
ECO 201 Hoyt  
Spring 2009  
Test #2

2/26/09

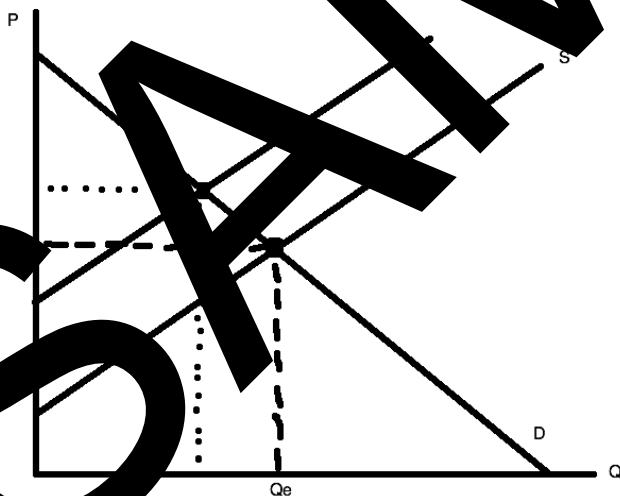
## Comparative Statics Analysis

An Example: the market for UK football sweatshirts and t-shirts in Lexington

1. What would happen to the supply and demand curve of sweatshirts if the UK football team were to make it to a bowl game?



2. What would happen to the supply and demand curve of sweatshirts if the wages of union garment workers rose?



3. What would happen to the supply and demand curve of sweatshirts if the cost of production increases because workers are paid more?

# Kentucky Class Notes

*Earn an A+ with Class Notes*  
*<http://KyClassNotes.com>*  
*859.252.NOTE*

**ECO 201 Hoyt**  
**Spring 2009**  
**Test #2**

3/3/09

## An application: The Minimum Wage

- I. **RESOURCE MARKETS:** the price for inputs used to produce goods and services
  - a. Individuals initially own the resources (the market)
  - b. Labor markets
- II. A brief history about the minimum wage:
  - a. In August of 1996, Congress passed a law to set the minimum wage at \$5.15
  - b. In January of 2007, Congress passed a law that would raise the federal minimum wage to \$7.25 over two years
    - i. \$5.85 by July 2007
    - ii. \$6.55 by July 2008
    - iii. \$7.25 by July 2009
  - c. A state on its own can raise their minimum wage above the federal rate
  - d. The rise of minimum wage is estimated to have raised wages of 13 million workers (about 7% of the workforce)
  - e. Do Democrats or Republicans sponsor minimum wage efforts? (It is the Democrats)
- III. **STICKY WAGES:** prices don't move easily
  - a. Finding other ways to change the prices

# Kentucky Class Notes

Earn an A+ with Class Notes  
<http://KyClassNotes.com>  
859.252.NOTE

ECO 201 Hoyt  
Spring 2009  
Test #2

8. But what about illicit drugs?
  - a.  $Y_{D\text{Heroin}} > 1 \rightarrow$  heroin is a luxury; the same for cocaine
  - b.  $Y_{D\text{Marijuana}} < 1 \rightarrow$  marijuana is a necessity; the same for alcohol
  - c. Illicit drugs are studied for gaining information in case the drugs were eventually legalized

3/31/09

## Cross-Price Elasticity of Demand

1. When people treat things as compliments or substitutes
2.  $X_D = \frac{\% \Delta \text{ in Demand}}{\% \Delta \text{ in Price of Related Good}}$
3. If  $X_D > 0$ : as the price of the related good rises, the quantity of X demanded increases
  - a. These are substitutes in consumption
4. If  $X_D < 0$ : as the price of the related good rises, the quantity of X demanded decreases
  - a. These are compliments in consumption
5. If  $X_D = 0$ : there is no relationship between the two products
6. Example: the price of peanut butter increases from \$2.50 to \$3.00 and the quantity of jelly demanded falls from 30 to 24 units

$$a. X_D = \frac{24 - 30}{2.50 + 3.00} = \frac{-6}{5.5} = -1.09$$

- b. Since  $X_D < 0$ , the goods are compliments
  - c. Since  $|X_D| > 1$ , the demand is elastic
7. Drug elasticities
    - a. Heroin and cocaine:  $X_D > 0 \rightarrow$  they are substitutes
    - b. Heroin and marijuana:  $X_D = 0 \rightarrow$  they are unrelated
    - c. Marijuana and cigarettes:  $X_D < 0 \rightarrow$  they are compliments
    - d. Cigarettes and alcohol:  $X_D < 0 \rightarrow$  they are compliments

## Tax and Government Intervention: Introduction and Terminology

1. Types of Tax
  - a. Sales Tax
    - i. 6% in Kentucky (on tangible goods)