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Macro and Micro Economics Affiliation Question 1   
a)   
Price range   
Qs   
Types of cars offered for sale   
Buyers expected value if he buys a car   
Qd   
P≥3000   
30   
Good   
3600   
100   
2000≤P≤3000   
20   
Medium   
2400   
100   
1000≤P≤2000   
10   
Bad   
1200   
100   
Explanations   
A seller will only sell good cars if price is greater or equals to the value where he incurs no loss hence supply = 100 but since buyer does not know, demand= supply so long as the value to the buyer is more than the price.   
Seller will only sale the medium cars if prices are greater than their values hence supply = 100 while the same will also be demanded with the buyers expectation = 2000.   
Seller will again supply quantity of 100 of the bad cars so long as price is more than value and the same will be demanded.   
b) For P˃0, the buyer will not buy the commodity while if P= 0 the buyer will be indifferent and the buyer only buys when the value exceeds the price hence a downward sloping demand curve.   
While seller will only sale if the if quantity is equivalent to the prices constituting an upward sloping.   
Price   
(3000) Supply   
Demand   
  
Equilibrium quantity (300)   
In equilibrium, all the cars are traded or not i. e. P= 0   
Question 2   
a) Expected value for a low quality toaster= 0. 8 ×8+ 0. 2×8 = 8   
Expected values thus are the cumulative values of the products occurring   
b) Expected value of high quality toaster = 0. 1×40 + 0. 9×40 = 40   
I. e. it is the probabilities of the high products occurring and not breaking.   
c) Supply and demand curve in the case buyer does not know the quality   
High toaster   
Low toaster   
As long as the buyer do not know the quality of the substitute, the two goods are then considered to be perfect substitutes as shown in the graph above.   
d) Consumer will only buy if price is less than the expected value i. e. P≤ 50   
Producer only sales if q≥C, but P= C, equilibrium price and quantity is 50.   
High quality toasters are bought and sold since the consumer will attach no value to the low toasters.   
Question3   
a) Low quality producer will chose option B since price is greater than the cost, 8˂10   
b) High quality producer choses option A since price is more than the cost, 49˃40   
c) Offering warrantees will not send a good signal to the consumers since the prices attached to them is more the value to the consumer.   
Question 4   
Kevin will borrow if and only if the returns are high that is, 108≥100 (1+r) = r≤8%   
While for the low returns 100≥ 100(1+0) = 1%, but since the 1% will not yield profits to the borrower, the range is r≤8%   
Laura borrows iff the returns are high that is, 114≥100 (1+r) = r≤ 14%   
While if returns are low 94≥100 (1+r) = 6% which is unprofitable hence the range of interest is r≤14%   
Question 5   
Telematics is a technology that would help to monitor the driving behaviors of drivers so as to determine the amount of premiums that they would pay in the process of their driving actions. The service is installed on the car and records different behaviors to diverse drivers. This will help to reduce accidents on the roads as the drivers are monitored since the reckless ones will have to pay high amounts to the insurance companies. But since the drivers would not want to part with so much cash, they will take responsibility on the roads and will also raise revenues to the firms so that they incur their development expenditures (Zagst, 2002).   
However the project is deemed to experience challenges. Most of the drivers may not comply with the new rule as they may install fake products so that they can enjoy their reckless driving hence especially if measures are not put in place on the implementation. The technology is also being implemented based on assumptions which are just but theoretical aspects. For instance not all women will drive responsibility and are given the benefit of doubt by discounts by the insurers which may not turn to be the case.   
Reference   
Zagst, R. (2002). Interest rate management. Berlin [u. a.: Springer.