

Solution to every questions in my

Literature, Russian Literature



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

$P \geq 3000$

30

Good

3600

100

$2000 \leq P \leq 3000$

20

Medium

2400

100

$1000 \leq P \leq 2000$

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= $0.8 \times 8 + 0.2 \times 8 = 8$

Expected values thus are the cumulative values of the products occurring

b) Expected value of high quality toaster = $0.1 \times 40 + 0.9 \times 40 = 40$

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. $P \leq 50$

Producer only sales if $q \geq C$, 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, $108 \geq 100(1+r) = r \leq 8\%$

While for the low returns $100 \geq 100(1+0) = 1\%$, but since the 1% will not yield profits to the borrower, the range is $r \leq 8\%$

Laura borrows iff the returns are high that is, $114 \geq 100(1+r) = r \leq 14\%$

While if returns are low $94 \geq 100(1+r) = 6\%$ which is unprofitable hence the range of interest is $r \leq 14\%$

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 responsibly 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.