

Advanced pricing techniques

[Literature](#), [Russian Literature](#)



Homework Exercise 7 Economic Concepts Fall Multiple Choices (2 points each) Use the following figure to answer questions 4 Which of the following statements is true?

a. The quantity of pounds demanded falls when the dollar appreciates.

A. Law of Demand and Supply or the graph shows that as the quantity of pounds rises in circulation the demand decreases leading to a decrease in price.

2. at the price of \$2 for £1 in the figure above:

B. the quantity of pounds supplied equals the quantity demanded.

B. it is the equilibrium point

3. Other things equal, a leftward shift of the demand curve in the figure above

A. would depreciate the dollar.

A. the dollar would reduce amount of pounds exchanged to a dollar

4. Other things equal, a rightward shift of the supply curve in the figure above would

C. appreciates the dollar and might be caused by a significant rise of real interest rates in the United States.

C. Higher interest rate cause an appreciation of the dollar price exchange

5. You live in Mexico and wish to buy a BMW automobile made in Germany.

In Germany, the price of the BMW you wish to buy is 100, 000 euros (€).

Using the “ Key Currency Cross Rates Table” provided above, what is the peso price of this car in Mexico City (ignore taxes, transport fees, and dealer preparation fees)?

b. 1. 67 million pesos

B. $16.704 * 100000 = 1670400$ pesos

6. Using the "Key Currency Cross Rates Table", what is the value of Japanese Yen/British pound (YEN/POUND)?

b. 124.88 pounds

B. Japanese yen to pound

7. If the pound price of the yen falls (YEN/POUND),

d. both a and c

D. The shift in prices of yen affects purchases of goods and services in Japan and Britain

8. Which of the following circumstances could cause EURO/USD to fall?

a. Currency speculators believe the dollar is undervalued in terms of the euro.

A. the euro will be demanded more for less USD

9. What happens when the supply of euros increases?

b. Euro/Yen falls

the demand from yen will fall

10. As the US becomes more energy independent, this will decrease the demand for currencies of nations that export oil to the US (Canada, Mexico, Saudi Arabia, and Brazil). What happens when demand for pesos decreases?

b. USD/PESO rises

investors will need more pesos to purchase goods or services in USD

Fill-in-the-Blank (2 points each blank)

3. Use the production possibilities for US and China given below. (24 points @ 1 point each blank)

US Production Possibilities

Product

A

B

C

D

E

F

Apparel (1000 units)

10

8

6

4

2

0

Chemicals (tons)

0

4

8

12

16

20

China Production Possibilities

Product

R

S

T

U

V

W

Apparel (1000 units)

30

24

18

12

6

0

Chemicals (tons)

0

6

12

18

24

30

Before specialization and trade occur, the optimal product mix for US is combination D and for China is combination S.

b. Calculate the four opportunity costs for China and US in the production of apparel and chemicals. Record your calculations on ANSWER page below:

c. Opportunity costs are ___decreasing_____ (decreasing, constant, increasing) in US.

Opportunity costs are ____increasing_____ (decreasing, constant,

increasing) in China.

d. China has an absolute advantage in _____ Apparel _____

(apparel, chemicals, both apparel and chemicals, neither apparel nor chemicals). US has an absolute advantage in

_____ Chemicals _____ (apparel, chemicals, both apparel and chemicals, neither apparel nor chemicals).

e. China has a comparative advantage in _____ both apparel and chemicals _____ (apparel, chemicals, both apparel and

chemicals, neither apparel nor chemicals). US has a comparative advantage

in _____ neither apparel nor chemicals _____ (apparel, chemicals, both apparel and chemicals, neither apparel nor chemicals).

f. If US and China specialize in their comparative advantages:

US chooses point ___C___ (A, B, C, D, E or F).

China chooses point ___T___ (R, S, T, U, V or W).

g. Compared to the initial optimal product combinations D and S, world

output of chemicals is _____ smaller _____ (smaller, greater) by ___18___

tons of chemicals and world output of apparel is _____ greater _____

(smaller, greater) by ___28___ 1000 units of apparel.

h. $1A = 1.5C$

i. Based on the actual terms of trade in previous part of this question, US can

now choose four 1000 units of apparel and ___1.5___ tons of chemicals and

China can now choose six tons of chemicals and ___1.5___ 1000 units of

apparel. Specialization and trade between the two nations has

_____ decreased _____ (decreased, increased) the standard of living in US

and has _____ Increased _____ (decreased, increased) the standard of living in China.