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1. [1 point] Explain the following concepts (use example or diagram where necessary).

i) Opportunity cost

ii) Comparative advantage and absolute advantage

iii) Consumer surplus, producer and social welfare

iiii) Ceteris Paribus Assumption

2. [1 point] List and explain the non-own price determinants of demand and supply.

3. [0.5 point] Draw the demand and supply curves for the following demand and supply schedule. What do you realize in this supply curve? In which cases could this be true (give example)?

Price	Quantity Demanded	Quantity Supplied
5	50	25
10	40	25
15	30	25
20	20	25
25	10	25
30	5	25

4. [1 point] Find the flaws in reasoning in the following statements, paying particular attention to the distinction between shifts of and movements along the supply and demand curves. Draw a diagram to illustrate what actually happens in each situation.

i) "A technological innovation that lowers the cost of producing a good might seem at first to result in a reduction in the price of the good to consumers. But a fall in price will increase demand for the good, and higher demand will send the price up again. It is not certain, therefore, that an innovation will really reduce price in the end.”

ii) “A study shows that eating a clove of garlic a day can help prevent heart disease, causing many consumers to demand more garlic. This increase in demand results in a rise in the price of garlic. Consumers, seeing that the price of garlic has gone up, reduce their demand for garlic. This causes the demand for garlic to decrease and the price of garlic to fall. Therefore, the ultimate effect of the study on the price of garlic is uncertain.”

5. [1.5 points] Consider the demand for a chocolate bar is given by $Q_d = 50 - 2P + 0.5Y$, where Y is the average income of the consumers per day and P is the price of a chocolate bar. Let the supply function for the chocolate be defined by $Q_s = 30P - 0.25P_c - 2$, where P is the price of Cocoa beans per kilogram.

i) If the average income of the consumers is Y = \$20 a day and the price of cocoa beans is P_c = \$2 per kilogram, calculate the equilibrium price and quantity that clears the market?

ii) Assume that the supply of cocoa reduced due to bad weather condition and hence price of cocoa increased to P_c = \$3 per kilogram. Compute the new equilibrium price and quantity resulting from this input price shock. (Illustrate your answer using a diagram depicting the shock).

iii) Assume that, despite the increase in input prices, the price of chocolate remained at the original equilibrium. Given this, calculate the magnitude of the shortage or surplus of chocolate that results from the shock in input prices stated on question (ii) above. Explain the impact of this event on the behavior of suppliers and consumers.