Econ 2020 Homework 1

Instructions:

Homework assignments are optional – there is no penalty for not completing an assignment.

If you like, you can work with other students in the class. Just turn in one assignment per group and include all names. Also include each participant’s recitation time and day.

Each student can earn up to 2 points per homework. The points will be added to the first exam score.

You can turn in the work at the beginning of class or send the homework to your TA by email.

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The deadline to submit your work is at the beginning of class on Tuesday, February 7th.

If you have any questions, please ask at the beginning of class.

Using the three basic assumption for the PPF:

- Finite inputs of labor and capital
- A given technology
- Efficient use of labor and capital

For each question, consider if the outcome is:

- Along the PPF,
- Inside the PPF,
- Outside the PPF,
- A movement along a given PPF,
- An expansion of the PPF, or
- A contraction of the PPF.

Also provide a short explanation (a sentence or two) of why you choose the answer.

1. Assume a country’s PPF with two goods: X and Y.

a) If all three assumptions above (a, b and c) are satisfied, where is production in regards to a nation’s PPF?
b) Assume that changes in market preferences shift production from good Y to X, how is this shown using the PPF?

2. If a country systematically discriminates against a group of its citizens which assumption(s) is not satisfied and where does production take place? Assume the people facing discrimination remain in the country.

Who is hurt by the discrimination?

3. In 1953 the Korean War ended finalizing the partition of North and South Korea. Assume in 1953 that North and South Korea had equal economies regarding production and wealth.

a) Draw a single PPF for 1953 showing equal output for both Koreas.

b) Next on the same graph, draw the PPF of South Korea relative to the PPF of North Korea in 2016.

c) Explain a few key factors that have contributed to South Korea’s growth relative to North Korea’s over the years.

4. For the past years, Syria has been in a destructive civil war. What has been the effect on Syria’s PPF and explain why?