

**College of Administrative and Financial Sciences**

**Assignment-1**

**Deadline: 01/10/2020 @ 23:59**

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| Course Name: Macroeconomics | Student’s Name: |
| Course Code: ECON201 | Student’s ID Number: |
| Semester: I | CRN: |
| Academic Year: 1441/1442 H |

 **For Instructor’s Use only**

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| Instructor’s Name: |
| Students’ Grade: / **5** | Level of Marks: High/Middle/Low |

**Instructions – PLEASE READ THEM CAREFULLY**

* The Assignment must be submitted on Blackboard (**WORD format only**) via allocated folder.
* Assignments submitted through email will not be accepted.
* Students are advised to make their work clear and well presented, marks may be reduced for poor presentation. This includes filling your information on the cover page.
* Students must mention question number clearly in their answer.
* Late submission will NOT be accepted.
* Avoid plagiarism, the work should be in your own words, copying from students or other resources without proper referencing will result in ZERO marks. No exceptions.
* All answered must be typed using **Times New Roman (size 12, double-spaced)** font. No pictures containing text will be accepted and will be considered plagiarism).
* Submissions without this cover page will NOT be accepted.

**Assignment 1 Question-Chapters: 1, 2, 3 & 4:** - **[5 Marks]**

**Q1**: Zainab has a weekly budget of $48, which she likes to spend on magazines and pies. **[1 Mark]**

1. If the price of a magazine is $8 each, what is the maximum number of magazines she could buy in a week?
2. If the price of a pie is $24, what is the maximum number of pies she could buy in a week?
3. Draw Zainab’s budget constraint with pies on the horizontal axis and magazines on the vertical axis. What is the slope of the budget constraint?
4. What is Zainab’s opportunity cost of purchasing a pie?

**Q2**: Many of the goods that China’s Citizens enjoy are produced abroad, and many of the goods produced in the China are sold abroad. When goods are produced abroad and sold domestically, the process is called **import** and when goods are produced domestically and sold abroad, that process is called **export**. Suppose an average worker in China can produce one kg of soybeans in 40 minutes and one Kg of coffee in 120 minutes, while an average worker in Paraguay can produce one kg of soybeans in 100 minutes and one kg of coffee in 150 minutes. Answer the following questions. **[2 Marks]**

1. Which country has the absolute advantage in coffee? Explain.
2. Which country should produce coffee? Explain.
3. If the two countries specialize and trade with each other, which country will import coffee? Explain.
4. Assume that the two countries trade with each other and the country importing coffee trades 2 Kgs of soybeans for 1 Kg of coffee. Explain why both countries will benefit from this trade.

**Q3:** Illustrates the interaction (equilibrium point) of demand and supply in the market for petrol based on the table below. And explain following conditions. **[2 Marks]**

1. Show excess supply (surplus of petrol) and excess in Demand (shortage of petrol) in the same graph and explain.
2. Suppose the government decided that, since petrol is a necessity, its price should be legally capped at $1.30 per gallon. What do you anticipate would be the outcome in the petrol market if at this price quantity supplied in the market is 575 Millions of gallons?

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| **Price (per gallon in $)** | **Quantity Demanded (millions of gallons)** | **Quantity Supplied (millions of gallons)** |
| **1.00** | **800** | **500** |
| **1.20** | **700** | **550** |
| **1.40** | **600** | **600** |
| **1.60** | **550** | **640** |
| **1.80** | **500** | **680** |

**Answer:**