AGSM 5200   February 2, 2004
R.E. Marks   due: 4:00 pm, February 13, 2004
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Assignment 1

Make whatever assumptions you feel necessary, but state them explicitly. This is individual work.

Answer all five questions.

1. Professor Smith is writing a book. She can both write the chapters and gather the needed data faster than anyone else at her university. Still, she pays a student to collect the data at the library. Is this sensible? Explain. (Hint: opportunity cost.)

2. Tomato sauce (ketchup) is a complement for hot dogs. If the price of hot dogs rises, what will happen to the market for tomato sauce? For tomatoes? For tomato juice? For orange juice? Explain your answers, using diagrams.

3. An article in the *NYT* (18 October, 1990) described a successful marketing campaign by the (French) champagne industry. The article also noted: "Many executives felt giddy about the stratospheric champagne prices. But they also feared that such sharp price increases would cause demand to decline, which would then cause prices to plunge." What mistake are the executives making in their analysis of the situation? Illustrate your answer with a graph.

4. Would you expect the price elasticity of *demand* to be larger in the market for all soft drinks or in the market for Pepsi? Would you expect the price elasticity of *supply* to be larger in the market for all ice-cream or in the market for vanilla ice-cream? Explain your answers.

5. In the 1980s the Australian government imposed a sales tax on the purchase of luxury cars (those cars above a certain price). The revenue collected from the tax equals the tax rate multiplied by total spending on such cars. There have been suggestions that the government could earn more tax revenue by increasing the tax rate on luxury cars. Would such an increase necessarily raise tax revenue? Explain.