

EC107

## Economics 1

Term 1

### In-Class Questions

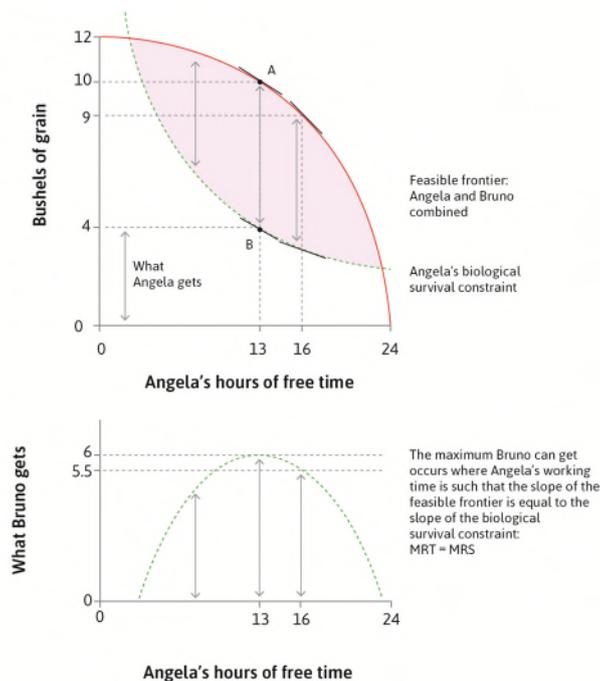
#### Week 6 Support and Feedback Class

#### Unit 5

#### Prosperity & Power; Mutual Gains & Conflict

**In-Q5.1:** (This question largely duplicates Pre-Q5.14) Consider the diagram below, which relates to a situation in which a landowner (Bruno) is able to coerce a farmer (Angela) into working on his land, require her to work the number of hours he chooses, and decide the amount of grain to allocate to her for her consumption. Answer the following:

- (i) What do you assume to be the landowner's objective?
- (ii) What do you assume to be the landowner's reservation option?
- (iii) What allocation will the landowner select (i.e., how many hours will he require Angela to work, how much grain will she produce, how much grain will he allow her to keep for her own consumption, and how much grain will he appropriate for himself)? Explain your answer fully.



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**In-Q5.2:** Suppose now that both the landowner and the farmer are free to make their own choices (and hence agree a voluntary contract) as follows: the landowner can decide whether or not to rent out the land to the farmer and also set the rent; the farmer can decide whether to rent the land from the landowner at the set price and can also decide how many hours to work (and hence how much grain to produce). Answer the following:

- (i) In a diagram, demonstrate the allocations which represent the potential for mutual gains from trade – i.e., the allocations in which they would both be better off than if they fail to agree a contract.
- (ii) Show in the diagram the allocations that will maximise the joint surplus. What condition characterises this and why?
- (iii) How and why do these allocations differ from those arising when the landowner has coercive power?
- (iv) What determines how the maximised joint surplus will be split between the landowner and the farmer? What conditions would favour the landowner? What conditions would favour the farmer?
- (v) Specifically, show in a diagram the impact on the possible contracted allocations associated if new legislation sets a higher maximum number of hours which can be required together with a higher minimum 'wage' (i.e., a higher minimum amount of grain that must be allocated to the farmer).

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Following your Class meeting of Week 6, you should ensure that you are able independently to be able to produce clear and comprehensive answers to these questions. To support you further in this, you should use all the resources available to you on the module, including:

Lecture Videos and Slides; the online textbook CORE: The Economy; the peer-support Forum for Unit 5; the Feedback on In-Class Questions for Unit 5; the FAQs resource. All of these resources are clearly linked on the module Moodle page.

Professor Robin Naylor

September 2020