DUE: 26 February 2010, Friday, before 5:00 pm. The homework should be submitted on www.turnitin.com. Any other submission (e-mail, flash disc, printed etc) will not be accepted.

1. (15 points) Define the following concepts: “Demand curve”, “Cross price elasticity of demand”, “Inferior good”, “Price inelastic supply curve”, “Complementary good in production”. Make sure you use your own words!

2. (40 points) You start working for the Ministry of Foreign Affairs. You are part of a team who carries out the trade negotiations under the World Trade Organization umbrella. Your boss asks that you prepare a short note on the following events (graphs are useful, but not required in the note):
   a. (10 points) What will happen to the price and quantity of agricultural goods in Turkey if the global warming effects are felt even stronger and water, an important resource for the production of agricultural goods, becomes scarce?
   b. (10 points) There is increasing tension in the Middle East, creating concerns about the worldwide supply of oil. Oil is an important resource in the production of manufacturing goods in Turkey. Discuss what will happen to the price and quantity of oil in the world market, and how this will affect the manufacturing goods prices and quantity in Turkey.
   c. (10 points) The membership negotiation with the EU is well on track and it seems like Turkey will soon become a full member of the EU. It is expected that this membership will significantly increase the income of Turkish residents. Discuss the effects of such an event on the price and quantity of normal and inferior goods, separately.
   d. (10 points) EU has agreed to reduce subsidies provided to its cotton producers. This will decrease cotton production in the world. Discuss what will happen to the price and quantity of cotton in the world. Assume that Turkey produces organic cotton, which is a perfect substitute to the cotton produced by the EU. How will the policies by EU affect the Turkish organic cotton market? What will happen to the price and quantity of organic cotton in Turkey?

3. (25 points) Read the article from the Wall Street Journal, dated February 17, 2010, titled “Prices Rise as Greece Strains Ease Coffee price increases filter down to public”. Write a two paragraph note on what the article is discussing, what the demand and supply pressures seem to be in the commodity markets. You should draft your answer in an essay format. In this short essay you should provide to `the man on the street` a clear presentation of what is happening in the commodity market, in terms of the demand and supply, expectations, and factors that affect and determine the prices and quantities of commodities.

4. (20 points) Assume you are given the following demand and supply for pencils.

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity demanded</th>
<th>Quantity supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00</td>
<td>1000</td>
<td>700</td>
</tr>
<tr>
<td>1.20</td>
<td>950</td>
<td>800</td>
</tr>
<tr>
<td>1.40</td>
<td>900</td>
<td>900</td>
</tr>
<tr>
<td>1.60</td>
<td>850</td>
<td>1000</td>
</tr>
<tr>
<td>1.80</td>
<td>800</td>
<td>1100</td>
</tr>
<tr>
<td>2.00</td>
<td>750</td>
<td>1200</td>
</tr>
</tbody>
</table>

a. (5 points) Find the market equilibrium.

b. (10 points) The price elasticity of demand around the market equilibrium is -0.38 and the price elasticity of supply around the market equilibrium is 0.8. Interpret what these two numbers mean. Discuss possible economic reasons for why these numbers might be low.

c. (5 points) Assume there is a decrease in income in this economy due to an economic crisis, causing a decline in demand by 150 units at each price level. Find the new market equilibrium and discuss how this new equilibrium is achieved.
Commodity prices surged, as investors became more confident that Greece's struggle with its debt wouldn't derail Europe's economic recovery.

At a meeting in Brussels, European Union finance ministers signaled that last week's pledge of support for Greece will have some teeth. The ministers said they and the International Monetary Fund would be watching closely while Greece comes up with a plan to narrow its budget deficit. After a month, the EU will demand its own changes, the ministers said.

Commodity markets, particularly energy and metals, have soared as a bloc with each new development ever since Greece's soaring debt grabbed investors' attention nearly two weeks ago.

Demand for most commodities was widely expected to bounce back this year from lows hit during the global economy slowdown, but there are increasing concerns about the pace of the recovery in the U.S. and China. Europe's problems with sovereign debt have added one more potent drag to the mix, though those fears eased somewhat with the EU's tougher talk on Tuesday.

"The markets convinced that Greece is going to be saved at the end of the day," said Phil Flynn, an analyst with PFGB Futures in Chicago.

Investors also were encouraged by Tuesday's stronger-than-expected Empire Manufacturing Survey from the Federal Reserve Bank of New York.

The price of the crude-oil future contract for March delivery rose $2.88, or 3.9%, to a two-week high of $77.01 a barrel in the New York Mercantile Exchange, the biggest one-day dollar and percentage rise since Sept. 30.

Crude has risen in five of the last six trading days.

February copper jumped 13.96 cents, or 4.5%, to $3.2165 a pound on the Nymex's Comex division, while February gold rose $23.80, or 2.7%, to $1,119.30 an ounce, also on Comex. Copper prices also drew support from an increase in canceled warrants for metal storage in London, usually an indication that more deliveries are needed to meet improving demand.

Commodity-linked stocks were among the biggest winners in the stock markets, with Chevron rising $1.98, or 2.6%, to $77.39 on the New York Stock Exchange, and U.S. Steel soaring $3.16, or 6.7%, to $51.14. Alcoa climbed 46 cents, or 3.4%, to $13.74.

Other commodities that often track oil and metals also rallied, with March wheat rising 3.6% and March corn advancing by 1.3% on the Chicago Board of Trade.

"When you've got crude up almost $3, and almost $90 in gold, it generates interest in the commodity basket in general," said Shawn McCambrige, senior grains analyst for Prudential Bache. "Fundamentally nothing has changed, and we're not expecting it to in the short-term."

Commodity markets are likely to remain volatile as long as investors alternate between riskier and more-secure assets depending on a rapidly fluctuating economic outlook.

Oil and other commodities typically generate much less trading volume than do the stock or currency markets, making prices in the former markets more sensitive to each development in Greece.

"The greater sensitivity in the smaller crude oil marker seems to be where the action is," wrote Tim Evans, an analyst with Citi Futures Perspective in New York.