Economics
Notes on Calculating Cost Efficiency

FORMULA FOR CALCULATING COST EFFICIENCY

Benefits (B) / Costs (C) or B / C

Example of Cost Efficiency Problem

Let's say you have a choice of two sizes of nutmeg spice in the grocery store to choose from (you want to make a sweet potato pie). Here are the sizes and prices:

Choice A	Choice B
.9 oz. ($2.50)	2.4 oz. ($3.99)

Which is the better choice? Let's check it out. Using the very simple formula above, we can set up the problem as follows:

Choice A	Choice B
.9 / 2.50 = 0.36	2.4 / 3.99 = 0.60

INTERPRETATION

Choice A	Choice B
This choice gives .36 oz. of nutmeg for every dollar spent	This choice gives .60 oz. of nutmeg for every dollar spent

CHOICE EVALUATION

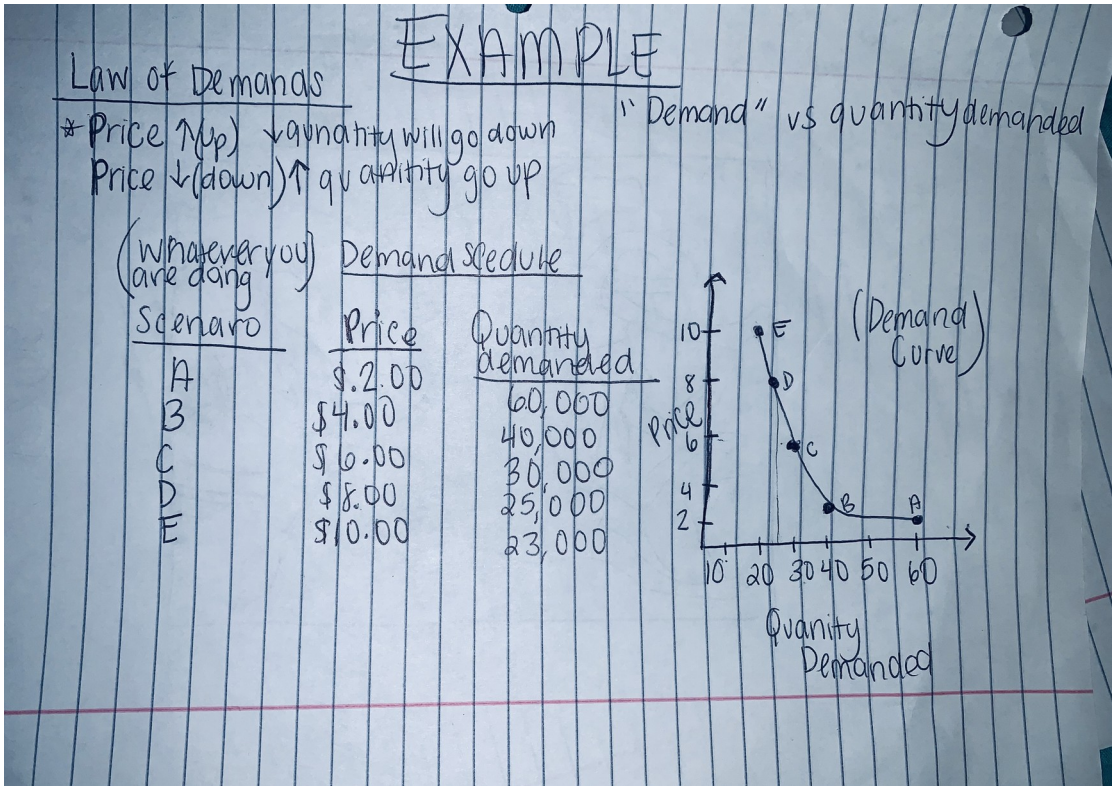
Choice B is the most cost efficient choice because you get more nutmeg for every dollar that is spent on the nutmeg. Does that make sense?

FAILURE TO PROVIDE AN INTERPRETATION FOR YOUR RESULTS WILL LEAD TO POINTS BEING DEDUCTED FROM YOUR ANSWERS. MAKE SURE THAT YOU PROVIDE AN INTERPRETATION.

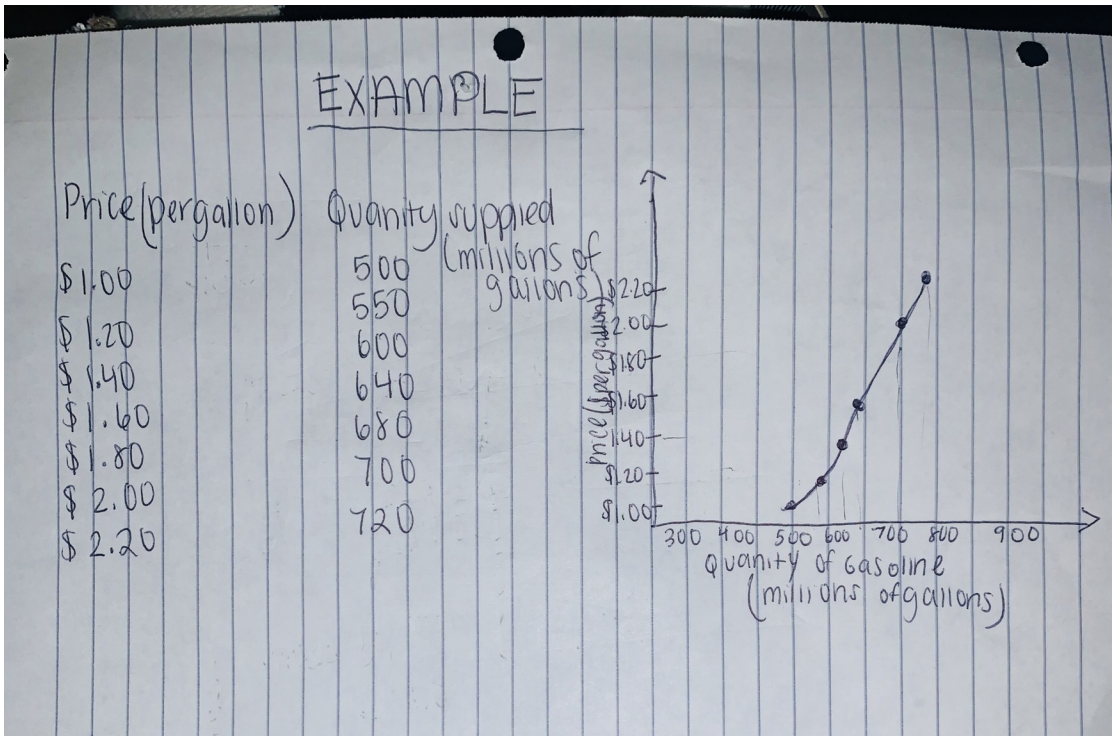
Economics
Practice Problems

Brief Answers and Graphs (if needed). Show all work. Points will be deducted if all work is not shown.

1) Using the market demand graph, show the law of demand.



2) Using the market supply graph, show the law of supply.



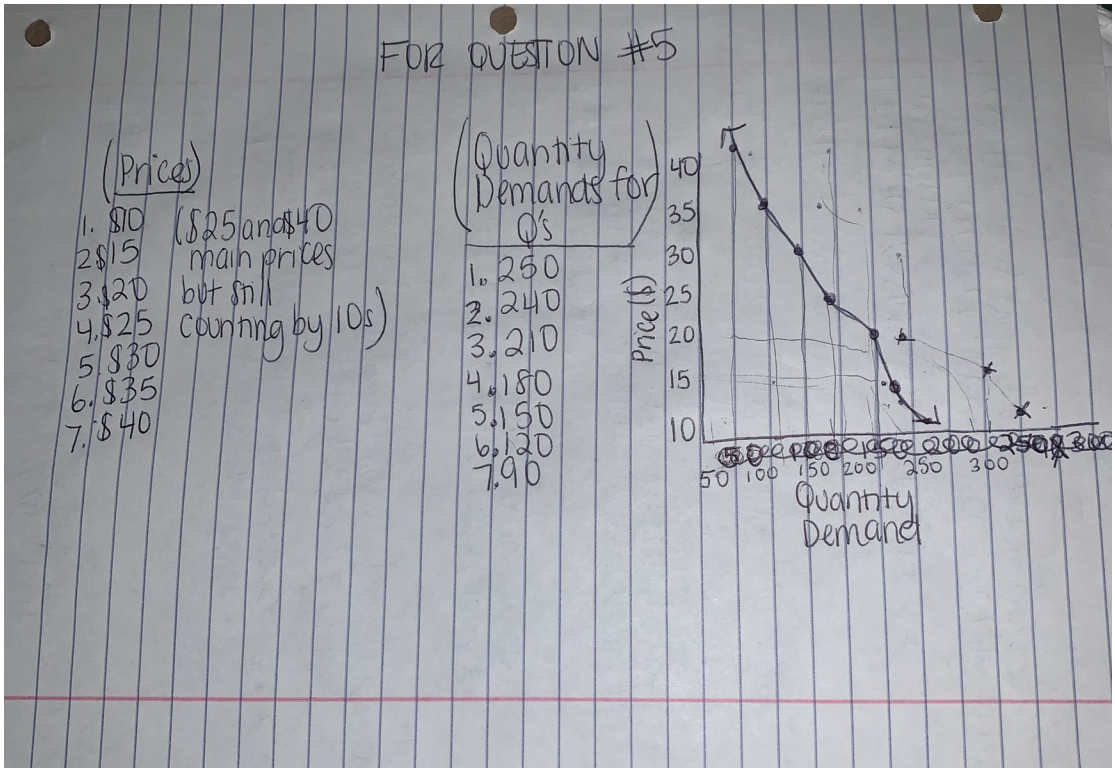
3) Briefly explain the economic connections between price, quantity, and market demand.

- **The price of a product and the quantity demanded for the demanded for a product is to have an inverse connection in the law of demand. The connection means that the higher prices results to low quantity demand and the lower prices result in the high quantity demand.**

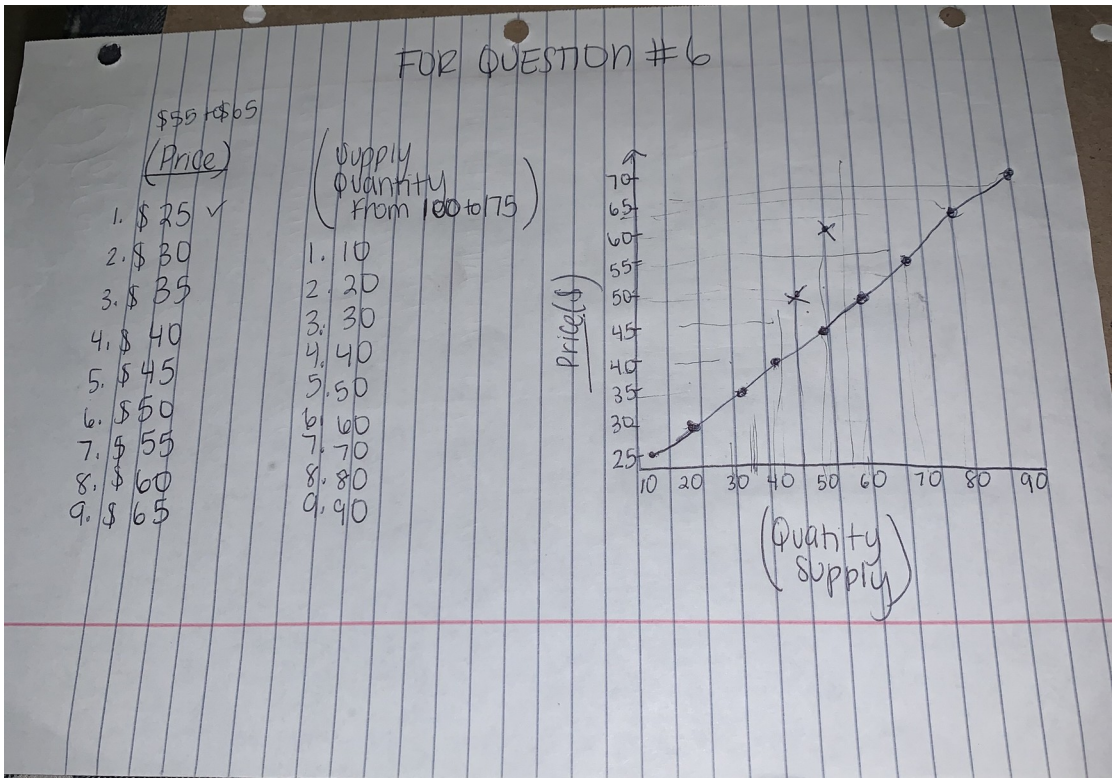
4) Briefly explain the economic connections between price, quantity, and market supply.

- **Price and quantity supplied are the higher prices that leads to higher quantity and supplied and a low-price lead to the lower quantity the law of the supply. All variables that affect supply are held constant.**

5) Illustrate a demand graph where quantity (Q) went from 250 (Q_2) to 180 (Q_1) because price (P) went from \$25 (P_1) to \$40 (P_2).



6) Illustrate a supply graph where quantity went from 100 to 175 because market price went From \$55 to \$65.



7) You need some garbage bags for the house and decide to stop by one of local Dollar Generals (DG). You are faced with two alternatives that make sense to you. The first option is a box of 38 bags at a price of $7.00. The second option is a box of 17 bags At a cost of $5.00. Which is the better choice?

- **The better choice of course in some people mind is the 17 bag $5.00 price. If you sit down and really think about it the 38 bags are the better choice because you will not run out of the bags as quickly as the 17 bags. Yes the 38 bags is $2 more but if you think by the time you run out of the 17 bag choice you will have to go by a new pack for 5 more dollars when you could've saved that and bought the 17 bag on to begin with by saving money and also having more bags to not run out of them quick as you did the other. So, my choice is the $38 for $7.00 bag.**

IF YOU CANNOT DO THIS ASSIGNMENT ON YOUR COMPUTER, DO BY HAND, TAKE A PICTURE OF IT, AND PLEASE PLACE THIS ASSIGNMENT IN DROP BOX 1.