The COVID-19 pandemic is, for all intents and purposes, causing a worldwide economic recession, with businesses shutting their doors and many people out of work.

Consider the market for electricity during this crisis. Draw a diagram for each of these

situations.

(a) What effect does COVID-19 have on supply and demand in the market for

electricity? (5%)

(b) Suppose that the government considers banning electricity bills until the

COVID-19 subsides. What effect might this have on the market for electricity? (5%)

(c) Instead of the proposal in (b), the government consider subsidizing the market

for electricity. What effect would this have on the market for electricity? (5%)

(d) Is there an argument, based on externalities, for subsidizing electricity? (5%)

2.The COVID-19 pandemic is a headache for airlines, who struggle to determine a

pricing strategy for their businesses. Consider the market for airplane tickets. Assume that airlines can choose prices (i.e. shift the supply curve at whim), and that their goal

is to maximize revenue (i.e.

Price×Quantity). Your task is to help them fulfill this goal.

(a) Using supply and demand curves, argue that airlines should decrease ticket prices

during COVID-19. (5%)

(b) Using supply and demand curves, argue that airlines should increase ticket prices

during COVID-19 (hint: consider elasticities of demand). (5%)

(c) Which of the arguments in (a) or (b) do you find more compelling? Why? (5%)