

## Ec306 Homework 7

1. In Rustbucket, Michigan, there are 200 used cars for sale; half of these cars are good and half of them are lemons. Owners of lemons are willing to sell them for \$300. Owners of good used cars are willing to sell them for prices above \$900 but will keep them if the price is lower than \$900. There is a large number of potential buyers who are willing to pay \$600 for a lemon and \$1,300 for a good car. Buyers can't tell good cars from bad, but original owners know.
  - a There will be an equilibrium in which all used cars sell for \$950.
  - b The only equilibrium is one in which all used cars on the market are lemons and they sell for \$600.
  - c There will be an equilibrium in which lemons sell for \$300 and good used cars sell for \$900.
  - d There will be an equilibrium in which all used cars sell for \$600.
  - e There will be an equilibrium in which lemons sell for \$600 and good used cars sell for \$1,300.

This homework is due in class Thurs. Dec 9. Please show your reasoning along with your answers.