1. The following quote from *The Economist* suggests some interesting things about money in Somalia, a country with very weak government: “Mogadishu’s marketplaces … bustle with enterprise. Many deals are done in Somali shillings, a currency without a central bank to support it. Local businessmen guess the shilling is kept afloat by ‘common assent’. Remittances in hard currency funnelled through *hawala* (Islamic word-of-mouth banks) may have more to do with it. The biggest of the banks, Dahabshiil, has offices in 40 countries. It moves a ‘large share’ of the $1 billion or more that Somalis abroad send to relatives back home each year.”

(a) Based on the above, is the Somali shilling a metal money, a token money, or a fiat money? Explain.

(b) Based on the above, does the Somali shilling play each of the three roles of money? Explain.
2. *MTA*. On December 30, 2010, the fare for one subway ride in New York City was raised from $2.25 to $2.50. Annual ridership is about 1.6 (measured in billions).

Suppose that demand turns out to be

\[ Q(p) = 2.21p^{-0.4} \]

(a) Graph this demand function and show the price/quantity point where the price of a ride is $2.25.

(b) Find the elasticity of demand using the derivative.

(c) Will the increase in fare to $2.50 increase or decrease revenue in the short run? Can you justify your answer without actually finding the new revenue?

(d) Suppose that you find out that ridership in 2011 is higher than 1.6. What do you think is the most likely explanation for such a finding? Illustrate your answer with your graph.

(e) Harder: Suppose that quite a lot of employers subsidize their workers taking the subway to work. Suppose it’s enough that there is an average subsidy of 5¢ per ride in this market. Note this is a subsidy direct to buyers, so it’s going to shift demand, not supply. Show what happens in the market.