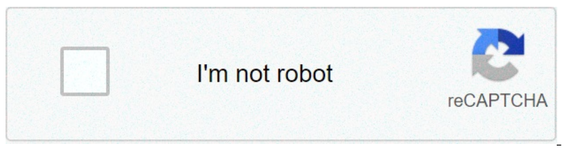

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Supply and demand worksheet answers

WEEK 3 Demand, Supply, and the Efficiency of Markets QUESTIONS ??? SURVEY RESULTS If the price of pizza increases, what happens to the demand for pizza? A. Demand increases - 5% B. Demand decreases - 52% C. Demand stays the same - CORRECT - 43% If the price of plywood increases, what happens to the supply of plywood? A. Supply increases - 48% B. Supply decreases - 14% C. Supply stays the same- CORRECT - 38% WEEKLY ASSIGNMENTS Required Weekly Activity (see below) Web Quizzes at 1: all questions 2: all questions 3 #1-3, 5-10 Study Guide Multiple Choice: # 1-28 Problems: # 1-6, 8 DEMAND and SUPPLY In Class Worksheets / Handouts: DEMAND Change in Demand vs. Change in Quantity Demanded: Worksheet Matching: Which of the follow tables/graphs shows: [answers] 1. a decrease in demand _____ 2. a change in quantity demanded _____ 3. an increase in demand _____ A Change in Quantity Demanded B Increase in Demand (a change in demand itself) C Decrease in Demand (a change in demand itself) Non-Price Determinants of Demand Non-price determinants of demand: Pe, Pog, I, Npot, T A change in demand is caused by a CHANGE in the non-price determinants of demand: Pe = change in expected price Pog = a change in the price of other goods (substitutes or complements) I = a change in incomes Npot = a change in the number of potential consumers T = a change in consumer tastes and preferences Pe -- expected price Pe in the future D today Pe in the future D today Pog -- price of other goods 1) substitute goods P Maxwell House coffee D Folgers coffee P of one product D of its substitute 2) complementary goods P of wieners D of buns P of one product D of its compliment 3) independent goods I -- income 1) normal goods Income D for normal goods Income D for normal goods 2) inferior goods Income D for inferior goods Income D for inferior goods Npot -- number of POTENTIAL consumers Npot D Npot D T -- tastes and preferences Tastes for a product D for that product Tastes for a product D for that product SUPPLY Change in Supply vs. Change in Quantity Supplied Matching: Which of the follow tables/graphs shows: [answers] 1. a decrease in supply _____ 2. a change in quantity supplied _____ 3. an increase in supply _____A Change in Quantity Supplied B Increase in Supply (a change in supply itself) C Decrease in Supply (a change in supply itself) Non-Price Determinants of Supply Non-price determinants of supply: Pe, Pog, Pres, Tech, Tax, Nprod Changes in supply are caused by a CHANGE in the non-price determinants of supply Pe = change in expected price Pog = change in price of other goods ALSO PRODUCED BY THE FIRM Pres = change in price of resources Tech = change in technology Tax = change in taxes and subsidies Nprod = change in number of producers/sellers Pe -- expected price Pe S today Pe S today Pog -- price of other goods ALSO PRODUCED BY THE FIRM P soybeans S corn P soybeans S corn Pres -- price of resources P autoworkers wages costs of producing cars S cars Pres costs S Pres costs S Tech --technology Improved technology costs S Tax --taxes and subsidies Taxes costs S Taxes costs S Subsidies costs S Subsidies costs S N -- number of producers/sellers Nprod S Nprod S USING SUPPLY AND DEMAND Required Weekly Activity (Determinants) In Class Review Worksheet (Worksheet with answers) Analyzing News Articles Use supply and demand curves to analyze why the price and quantity of the products in the following news have changed. to dothis you should answer the following questions: (1) Which determinant has changed? (2) Will it affect supply or demand? (3) Will supply or demand increase or decrease?and then GRAPH IT! to show what happens to price and quantity? GASOLINE: "Gasoline prices jump" (February 16, 2004) AIR TRAVEL: "Air customers to pay for fuel" (January 21, 2000) "USED SUV prices fall 5 percent" (July 25, 2005) ﷺ Tortillas: Use supply and demand curves to illustrate how each of the following changes will affect the price and quantity of the stated PRODUCT, ceterus paribus. Before you guess, answer the following questions: (1) Which determinant has changed? (2) Will it affect supply or demand? (3) Will supply or demand increase or decrease? (4) GRAPH IT! What happens to price and quantity? What happens to the price and quantity of ETHANOL if the US government subsidizes corn ethanol production to stimulate the use of ethanol gasoline? What happens to the price and quantity of CORN if more companies produce E85 cars? What happens to the price and quantity of TORTILLAS in Mexico if the price of corn increases? SO, what happens to the price and quantity of TORTILLAS in Mexico if the US government subsidizes corn ethanol production to stimulate the use of ethanol gasoline? THE EFFICIENCY OF MARKETS Online Lecture Why are Markets Efficient? Businesses will produce the profit maximizing quantity. This is the equilibrium quantity where Qd=Qs (see graph below on the right). This is WHAT WE GET. Society wants the allocatively efficient quantity. This is the quantity where MSB=MSC (see graph above on the left). This is WHAT WE WANT. If there are no negative externalities (spillover costs) the S = MSC, and if there are no positive externalities (spillover benefits) the D = MSB, THEREFORE: WHAT WE GET = WHAT WE WANT and self-interested, profit maximizing, businesses will end up doing what is best for society - achieving allocative efficiency - as if there is some "invisible hand " guiding their decisions. SUMMARY: Businesses will produce the profit maximizing or market equilibrium quantity - the quantity where Qd=Qs; (WHAT WE GET) Society wants the allocatively efficient quantity - the quantity where MSB=MSC ; (WHAT WE WANT) WHAT WE GET = WHAT WE WANT if: Market Demand = Marginal Social Benefits (D=MSB) (and this is true if there are no positive externalities (spillover benefits)) Market Supply = Marginal Social Costs (S=MSC) (and this is true if there are no negative externalities (spillover costs)) THEREFORE if there are no negative externalities (spillover costs) and no positive externalities (spillover benefits) competitive markets (capitalism) achieves allocative efficiency WHAT WE GET = WHAT WE WANT This is the "invisible hand" of capitalism. In a market economy with no positive externalities (spillover benefits) and no negative externalities (spillover costs): the profit maximizing or market equilibrium quantity (what we get) WILL BE THE SAME AS the allocative efficient quantity (what we want) REVIEW: Benefit-Cost Analysis: "the economic perspective" 1. definition the selection of ALL possible alternatives where the marginal benefits are greater than the marginal cost select all where: MB > MC up to where: MB = MC but never where: MB < MC 2. marginal benefits and marginal costs 3. Marginal Benefit = Marginal Cost Rule select all where: MB > MC up to where: MB = MC but never where: MB < MC What happens if the MB change? An increase in MB will encourage the activity A decrease in MB will discourage the activity What happens if MC change? An increase in MC wil discourage the activity A decrease in MC will encourage the activity 4. ignore fixed or sunk costs any cost that does not change as a result of the decision 5. examples a. Should I go to class today? What are the MB? What are the MC? Ignore fixed costs = tuition b. Should I wear a Ski Helmet ? c. Should I drive fast? seat belts d. Should I wear a helmet while skiing? 5. GRAPHICALLY [mcmb.jpg] as you do more of something what happens to the additional costs (MC)? law of increasing costs opportunity costs and marginal utility as you do more of something what happens to the additional benefits (MB)? diminishing marginal utility 6. REVIEW Multiple Choice Problems REVIEW ANSWERS FROM ABOVE Matching: Which of the follow tables/graphs shows: 1. a decrease in demand ___C_____ 2. a change in quantity demanded ___A_____ 3. an increase in demand ___B____ Matching: Which of the follow tables/graphs shows: 1. a decrease in supply ___C_____ 2. a change in quantity supplied ____A____ 3. an increase in supply ____B___ supply and demand worksheet answers chapter 2. shifting supply and demand worksheet answers. combining supply and demand worksheet answers. crash course supply and demand worksheet answers. indiana jones supply and demand worksheet answers. combining supply and demand worksheet answers graph. graphing supply and demand worksheet answers. seeking equilibrium supply and demand worksheet answers

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