

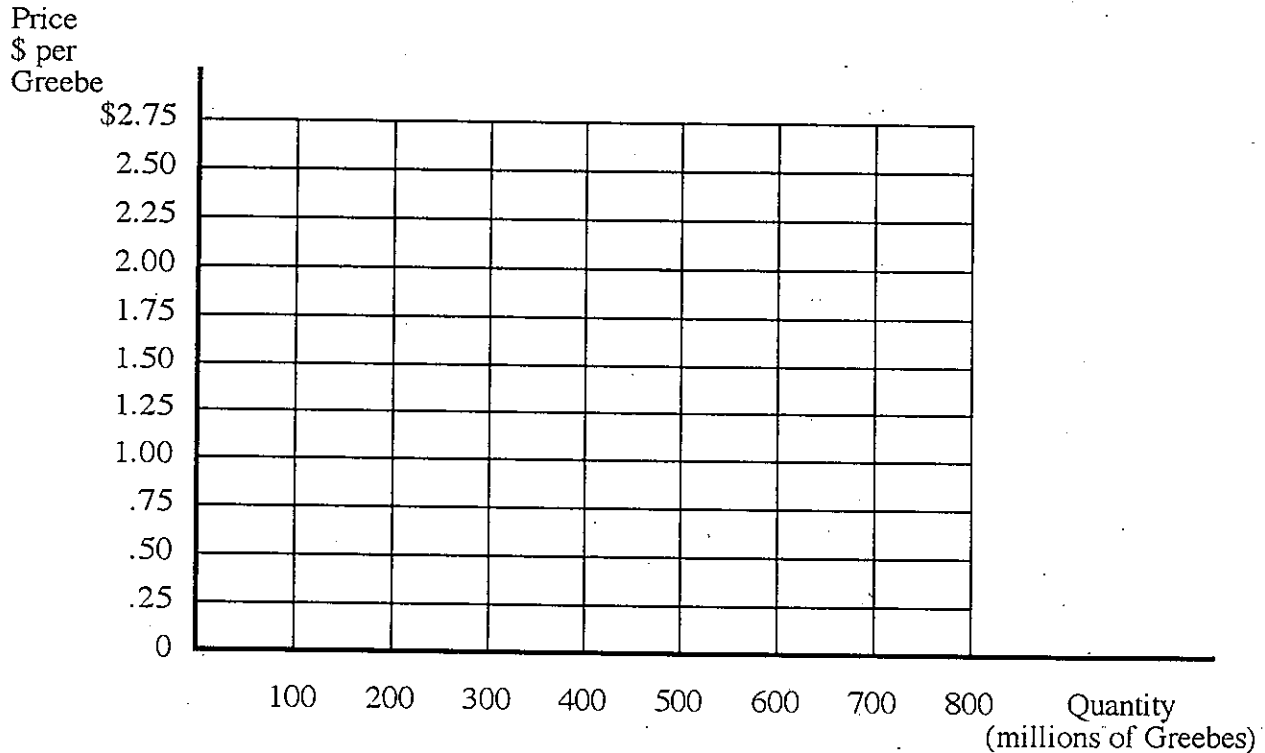
Homework Problem #11 Equilibrium Prices and Equilibrium Quantities

PRINT YOUR NAME _____
(LAST) (FIRST)

Part A

Below is a table showing the demand for greebes and the supply of greebes. Plot these data on the axes provided. Label the demand curve "D", and label the supply curve "S". Then answer the questions below.

Price (\$ per Greebe)	D Quantity Demanded (millions of Greebes)	S Quantity Supplied (millions of Greebes)
\$ 1.75	200	600
1.50	300	500
1.25	400	400
1.00	500	300
.75	600	200



- Under these conditions competitive market forces would tend to establish an equilibrium price of \$_____ per greebe and an equilibrium quantity of _____ million greebes.
- If the price currently prevailing on the market is \$1.50 per greebe, buyers would want to buy _____ million greebes and sellers would want to sell _____ million greebes. Under these conditions, competitive market forces would tend to cause the price to (increase/decrease) to a price of \$_____ per greebe.

And, at this new price, buyers would now want to buy _____ million greebes, and sellers would now want to sell _____ million greebes. Due to this change in (price/underlying conditions), the (demand/quantity demanded) changed by _____ million greebes, and the (supply/quantity supplied) changed by _____ million greebes.

3. If the price currently prevailing on the market is \$1.00 per greebe, buyers would want to buy _____ million greebes and sellers would want to sell _____ million greebes. Under these conditions, competitive market forces would tend to cause the price to (increase/decrease) to a price of \$_____ per greebe.

And, at this new price, buyers would now want to buy _____ million greebes, and sellers would now want to sell _____ million. Due to this change in (price/underlying conditions) the (demand/quantity demanded) changed by _____ million greebes, and the (supply/quantity supplied) changed by _____ million greebes.

4. Now, suppose that a mysterious blight causes the supply schedule for greebes to change to the following:

S ₁	
Price (\$ per Greebe)	Quantity Supplied (millions of Greebes)
\$1.75	400
1.50	300
1.25	200
1.00	100

Plot the new supply schedule on the axes on the preceding page and label it "S₁". Under these conditions, competitive market forces would tend to establish an equilibrium price of \$_____ per greebe and an equilibrium quantity of _____ million greebes. Compared to the equilibrium price in 1 above, we say that, due to this change in (price/underlying conditions) the (supply/quantity supplied) changed, and both the equilibrium price and the equilibrium quantity changed. The equilibrium price (increased/decreased) and the equilibrium quantity (increased/decreased).

5. Now with the supply schedule at S₁, suppose further that a sharp drop in people's incomes as the result of a nationwide depression causes the demand schedule to change to the following:

D ₁	
Price (\$ per Greebe)	Quantity Demanded (millions of Greebes)
\$ 1.50	100
1.25	200
1.00	300
.75	400

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Plot the new demand schedule on the axes on page 81 and label it "D₁". Under these conditions, with the supply schedule at S₁, competitive market forces would tend to establish an equilibrium price of \$ _____ per greebe and an equilibrium quantity of _____ million greebes. Compared to the equilibrium price in 4 above, due to this change in (price/underlying conditions) the (demand/quantity demanded) changed. The equilibrium price (increased/decreased) and the equilibrium quantity (increased/decreased).

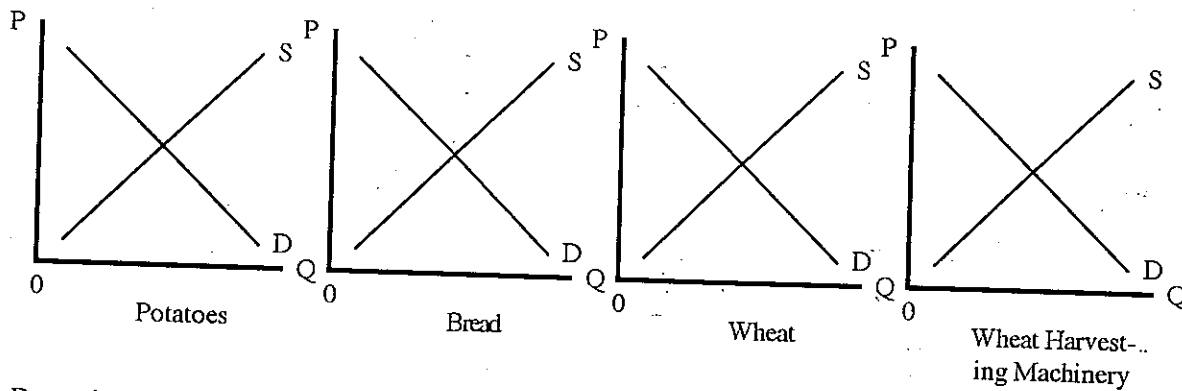
6. If market conditions were represented by "D₁" and "S," the equilibrium price would be \$ _____ per greebe, and the equilibrium quantity would be _____ million greebes.

Part B

The following questions refer to a groups of related markets in the United States during a given "long run" time period. Assume that the markets are perfectly competitive so that the supply and demand model is completely applicable. The diagrams show the supply and demand in each market before the assumed change occurs. Trace through the effects of the assumed change, other things constant. Work your way from left to right and ignore "feedback" effects. (Hint: shift only one curve in each market.)

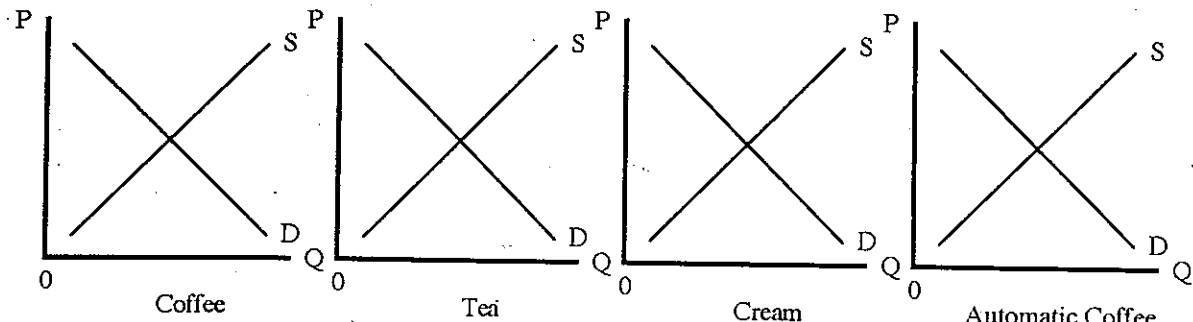
For each market below, draw whatever new supply and/or demand curves are needed, labelling each new curve S₁ or D₁. Then circle the correct letters under each diagram (I for increase, U for unchanged, D for decrease). Remember, shift only one curve in each market.

1. Assume that a new fertilizer is invented that dramatically increases the number of potatoes that can be harvested on an acre of land with no additional labor or machinery needed. Also assume that this fertilizer does nothing for wheat farming, and that people can use either potatoes or bread to provide the starch needed in their diets.



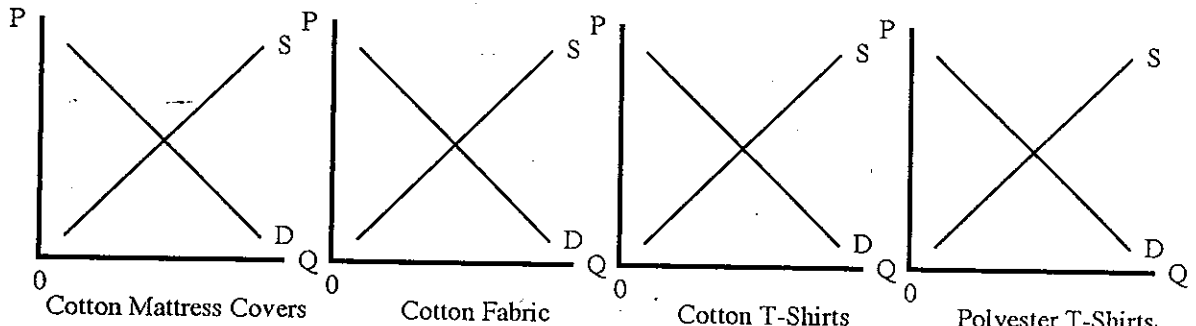
Demand:	IUD	IUD	IUD	IUD
Supply:	IUD	IUD	IUD	IUD
Equilibrium Price:	IUD	IUD	IUD	IUD
Equilibrium Quantity:	IUD	IUD	IUD	IUD

2. Assume that a heavy frost destroys half the world's coffee crop, and that people use more cream in coffee than they do in tea.



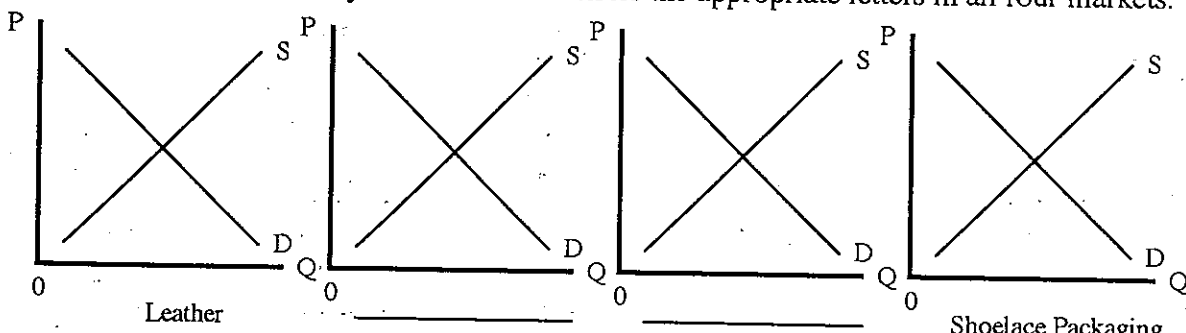
Demand:	IUD	IUD	IUD	Makers
Supply:	IUD	IUD	IUD	IUD
Equilibrium Price:	IUD	IUD	IUD	IUD
Equilibrium Quantity:	IUD	IUD	IUD	IUD

3. Assume peoples' tastes change in favor of larger king and queen size beds.



Demand:	IUD	IUD	IUD	IUD
Supply:	IUD	IUD	IUD	IUD
Equilibrium Price:	IUD	IUD	IUD	IUD
Equilibrium Quantity:	IUD	IUD	IUD	IUD

4. Assume peoples' tastes change and there is a decline in the demand for leather briefcases and luggage. Note how this would affect the leather market, and underneath the two middle diagrams write the names of the markets which relate leather to shoelace packaging machinery. Then draw the necessary new curves and circle the appropriate letters in all four markets.



Demand:	IUD	IUD	IUD	Machinery
Supply:	IUD	IUD	IUD	IUD
Equilibrium Price:	IUD	IUD	IUD	IUD
Equilibrium Quantity:	IUD	IUD	IUD	IUD