

Homework Problem #8

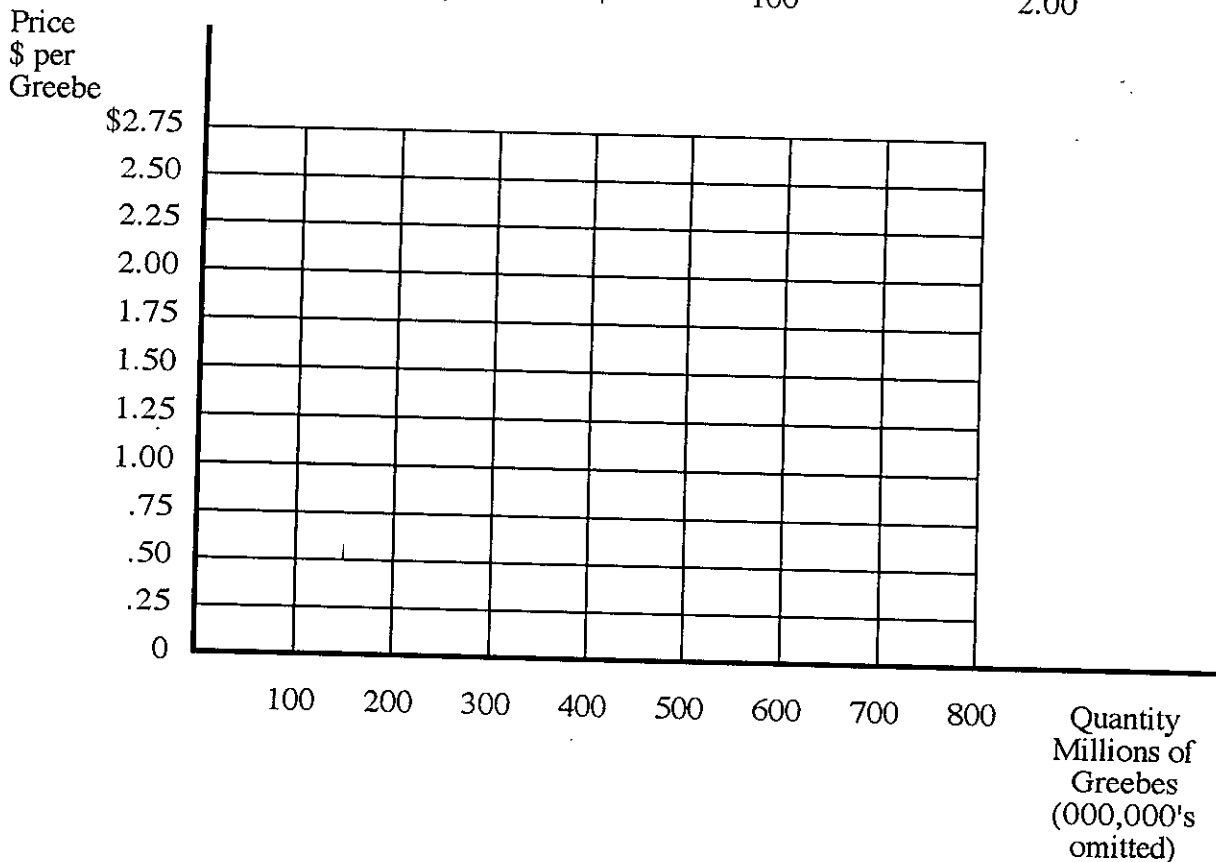
Demand Curves, Moves Along Demand Curves, And Shifts in Demand Curves

PRINT YOUR NAME _____
(LAST) (FIRST)

Below is a table showing the market demand for greebes, a hypothetical product introduced to spare you the confusion of real world associations. Study the data in the table, and plot the demand for greebes on the axes provided below. Label the demand curve "D", and answer the questions on the following pages.

DEMAND FOR GREEBES

Price (\$ per Greebe)	Quantity demanded (millions of Greebes)		Quantity (millions of Greebes)	Demand Price (\$ per Greebe)
\$ 2.00	100		700	\$.50
1.75	200		600	.75
1.50	300		500	1.00
1.25	400		400	1.25
1.00	500		300	1.50
.75	600		200	1.75
.50	700		100	2.00



The data for demand curve "D" indicate that at a price of \$1.25 per greebe, buyers would be willing to buy _____ million greebes. Other things constant, if the price of greebes increased to \$1.50 per greebe, buyers would be willing to buy _____ million greebes. Such a change would be called a(n) (increase/decrease) in (demand/quantity demanded). Other things constant, if the price of greebes decreased to \$1.00, buyers would be willing to buy _____ million greebes. Such a change would be called a(n) (increase/decrease) in (demand/quantity demanded).

The data for demand curve "D" indicate that for a quantity of 300 million greebes, buyers would be willing to offer a maximum "demand price" of \$_____ per greebe. Other things constant, if the quantity of greebes were increased to 500 million greebes, buyers would be willing to offer a maximum price of \$_____ per greebe. Such a change would be called a(n) (increase/decrease) in (demand/demand price). Other things constant, if the quantity of greebes decreased to 200 million greebes, buyers would be willing to offer a maximum price of \$_____ per greebe. Such a change would be called a(n) (increase/decrease) in (demand/demand price).

Now, let's suppose that a dramatic increase in Federal income tax rates reduces the disposable income of greebe buyers. This change in the **ceteris paribus** conditions underlying the original demand for greebes will result in a decrease in demand, and we would have a new set of data such as that shown in the following table. Study the data in the new table, and plot the new demand curve for greebes on the axes on the preceding page. Label the new demand curve "D₁" and answer the questions below.

DECREASE IN THE DEMAND FOR GREEBES

<u>Price</u> <u>(\$ per Greebe)</u>	<u>Quantity demanded</u> <u>(millions of Greebes)</u>		<u>Quantity</u> <u>(millions of Greebes)</u>	<u>Demand Price</u> <u>(\$ per Greebe)</u>
\$ 1.50	100		600	\$.25
1.25	200		500	.50
1.00	300		400	.75
.75	400		300	1.00
.50	500		200	1.25
.25	600		100	1.50

Comparing the new demand curve (D₁) with the old demand curve (D), we can say that a decrease in the demand for greebes results in a shift of the demand curve to the (right/left). Such a shift indicates that at each of the possible prices shown, buyers are now willing to buy a (smaller/larger) quantity, and at each of the possible quantities shown, buyers are willing to offer a (higher/lower) maximum price.

PRINT YOUR NAME _____

(LAST)

(FIRST)

Now, let's suppose there is a dramatic increase in people's "taste" for greebes. This change in the **ceteris paribus** conditions underlying the original demand for greebes will result in an increase in demand, and we would have a new set of data such as that shown in the following table. Study the data in the new table, and plot this demand for greebes on the axes on p. 55. Label the new demand curve "D₂" and answer the questions below.

INCREASE IN THE DEMAND FOR GREEBES

Price (\$ per Greebe)	Quantity demanded (millions of Greebes)	Quantity (millions of Greebes)	Demand Price (\$ per Greebe)
\$ 2.50	100	700	\$ 1.00
2.25	200	600	1.25
2.00	300	500	1.50
1.75	400	400	1.75
1.50	500	300	2.00
1.25	600	200	2.25
1.00	700	100	2.50

Comparing the new demand curve (D₂) with the old demand curve (D), we can say that an increase in the demand for greebes results in a shift of the demand curve to the (right/left). Such a shift indicates that at each of the possible prices shown, buyers are now willing to buy a (smaller/larger) quantity, and at each of the possible quantities shown, buyers are willing to offer a (higher/lower) maximum price.

Now, the dog work over, see if you have the point by circling what you think is the one best alternative in each of the following multiple choice questions.

1. Other things constant, which of the following would **NOT** cause a change in the demand (shift in the demand curve) for mopeds.
 - A. A decrease in consumer incomes.
 - B. A decrease in the price of mopeds.
 - C. An increase in the price of bicycles.
 - D. An increase in people's taste for mopeds.
2. "Rising oil prices have caused a sharp decrease in the demand for oil." Speaking precisely, and using terms as they are defined by economists, this quotation is:
 - A. correct -- an increase in price always causes a decrease in "demand."
 - B. incorrect -- an increase in price always causes an increase in "demand," not a decrease in "demand."
 - C. incorrect -- an increase in price causes an increase in the "quantity demanded," not a decrease in "demand."
 - D. incorrect -- an increase in prices causes a decrease in the "quantity demanded," not a decrease in "demand."

3. "As the price of domestic automobiles has inched upward, customers have found foreign autos to be a better bargain. Consequently, domestic auto sales have been slipping and foreign auto sales have been moving briskly." Using only the information in this quotation, and assuming everything else constant, which of the following best describes this statement?
- A. A shift in the demand curves for both domestic and foreign automobiles.
 - B. A movement along the demand curves for both foreign and domestic automobiles.
 - C. A movement along the demand curve for domestic autos and a shift in the demand curve for foreign autos.
 - D. A shift in the demand curve for domestic autos, a movement along the demand curve for foreign autos.
4. A fellow student is heard to say the following: "Economic markets are like a perpetual see-saw. If demand rises, the price rises; if price rises, then demand will fall; if demand falls, price will fall; if price falls, demand will rise . . . and so on forever." Dispel your friend's obvious confusion (in no more than one short paragraph) below.