

HW#4 From Problem and Applications of Mankiw book, Chapter 4 The Market Forces of Supply and Demand

#1 Answer only part (b) and (e). Follow the instruction of the question and, in addition, and describe the market mechanism that causes the change in the market equilibrium.

3. Consider the market for minivans. For each of the events listed here, identify which of the determinants of demand or supply are affected. Also indicate whether demand or supply increases or decreases. Then draw a diagram to show the effect on the price and quantity of minivans.

~~a. People decide to have more children.~~

b. A strike by steelworkers raises steel prices.

~~c. Engineers develop new automated machinery for the production of minivans.~~

~~d. The price of sports utility vehicles rises~~

e. A stock market crash lowers people's wealth.

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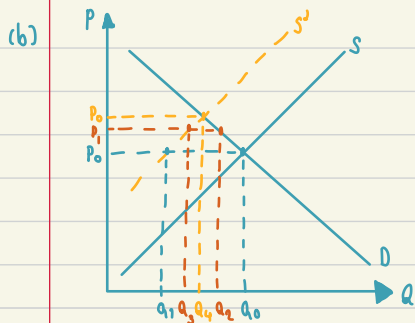
11. Suppose that the price of basketball tickets at your college is determined by market forces. Currently, the demand and supply schedules are as follows:

Price	Quantity Demanded	Quantity Supplied
\$4	10,000 tickets	8,000 tickets
8	8,000	8,000
12	6,000	8,000
16	4,000	8,000
20	2,000	8,000

a. Draw the demand and supply curves. What is unusual about this supply curve? Why might this be true?

b. What are the equilibrium price and quantity of tickets?

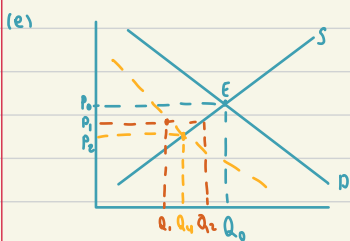
c. Your college plans to increase total enrollment next year by 5,000 students. The additional students will have the following demand schedule:



the equilibrium is at point $P = P_0$ and $Q = Q_0$

- A strike by steelworkers raises steel prices causes the supply to decrease from S to S'
 - At $P = P_0$, Q_s decrease from Q_0 to $Q_1 \Rightarrow$ excess demand $Q_0 - Q_1 > 0$, Then price increases from P_0 to P_1
 - At $P = P_1$, Q_s increases from Q_1 to Q_3 and demanded decrease from Q_0 to Q_2 but less than the one at the price P_0 . The price tend to increase as long as we have excess demand
 - P_2 is new equilibrium
- \therefore equi^m price decrease from $P_0 \rightarrow P_2$, Equil^m Q decrease from Q_0 to Q_4

when demand decrease



At $P = P_0$, $Q = Q_0$

- when a stock crash down and people wealth' causing demanded to decrease from D to D'
- At P_0 , Q_d decrease to Q_1 while Q_s is not changes so there is excess supply ($Q_0 - Q_1 > 0 \Rightarrow$ price decrease from P_0 to P_1)
- At P_1 , Q_d increases to Q_3 and Q_s decrease to $Q_2 \Rightarrow$ excess supply $\cdot Q_2 - Q_3$.
- \Rightarrow The price keeps falling to the Equil^m point P_2
- \therefore new Equil^m price = P_2 , new Equil^m quantity is Q_4