

## 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, 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:

$p \uparrow d \downarrow \uparrow =$

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?

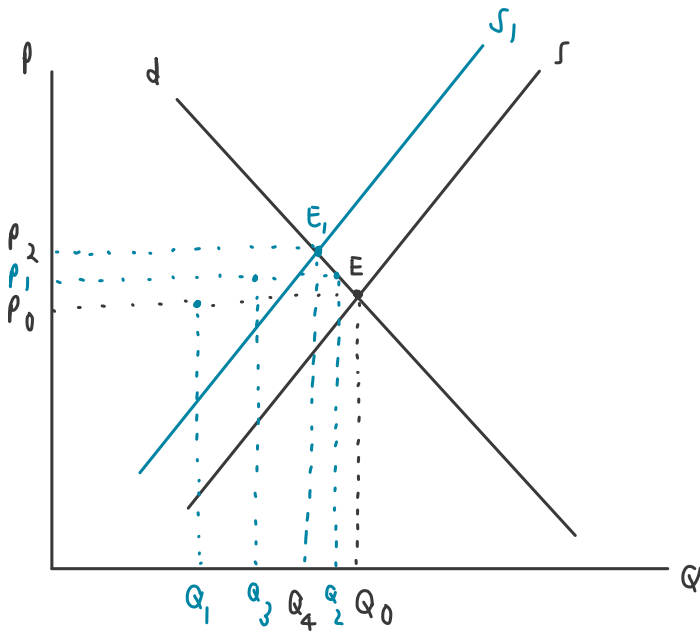
b. What are the equilibrium price and quantity of tickets?

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

a). there is an inverse relationship between the demand and prices of goods and services when supply is unchanged. When the demand decreases and supply remains the same, the lower demand will lead to a lower equilibrium price. In this case, the quantity demanded for a ticket decreases when the prices increase and the supply remains the same. This creates a surplus and the price will go down. This might be true as when there is more demand, the prices will go up as more people are demanding to buy the same products but there is not enough supply for it.

③ the market for minivans  
d or s increases or decrease?

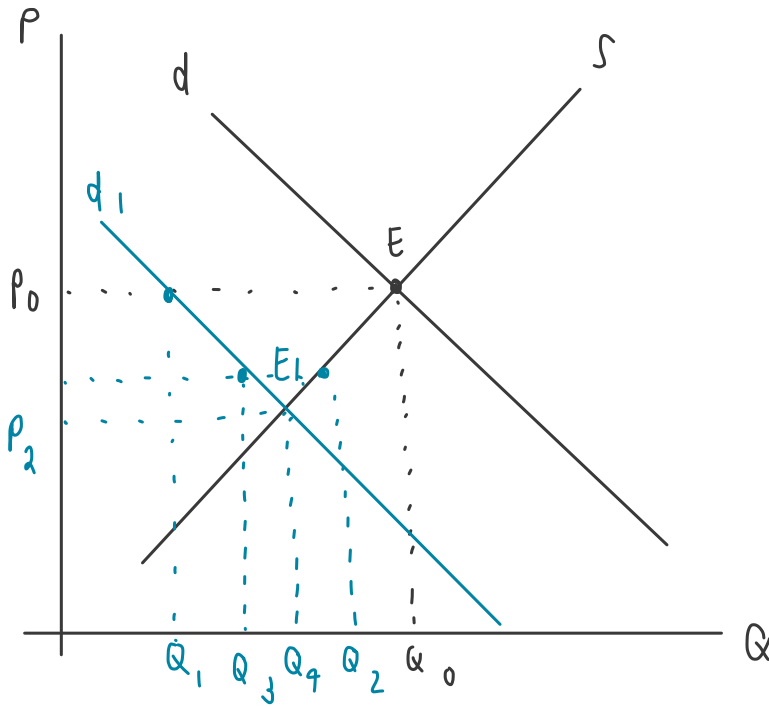
A strike by steelworkers raises steel prices



At first, the equilibrium is at  $Q_0$  and  $P_0$ . After the strike which raises the steel prices, the increase in steel prices cause the supply curve to shift to the left meaning that the supply decreases from  $S$  to  $S_1$ .

At price  $P_0$ , even if the quantity supplied decreases from  $Q_0 \rightarrow Q_1$ , but the quantity demanded remains the same.

$s \downarrow$ 
 $d \downarrow$   
 a stock market crash lowers people's wealth



At first, the equilibrium is at point  $E_0 (Q_0, P_0)$ .

After the stock market crash, it leads to the lower level of people's wealth which also leads to the decrease in demand in the market

Therefore, the demand curve shifts to the left from  $d$  to  $d_1$ .