

HW#6 Due Feb 10, 2022

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.

#2

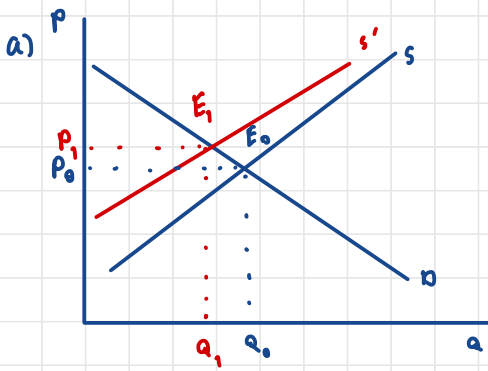
11. Suppose that the price of basketball tickets at your college is determined by market forces. Currently, the demand and supply schedules are as follows:

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:

Price	Quantity Demanded
\$4	4,000 tickets
8	3,000
12	2,000
16	1,000
20	0

Now add the old demand schedule and the demand schedule for the new students to calculate the new demand schedule for the entire college. What will be the new equilibrium price and quantity?



At E_0 , this is equilibrium for normal situation.

When it has strike, prices increase and supply decrease, so it move P_0 to P_1 and Q_0 to Q_1 .

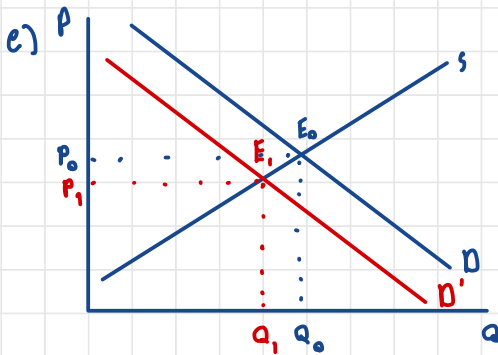
We will have new equilibrium at E_1 .

A strike by steelworkers raises steel prices

affects supply of minivans to decrease

because prices of steel increases that means

cost of production also increases.



At E_0 , it is normal situation for stock market

but when the market crashes, people's wealth decreases

that means demand will decrease and it move

P_0 to P_1 and Q_0 to Q_1 and we will get new equilibrium

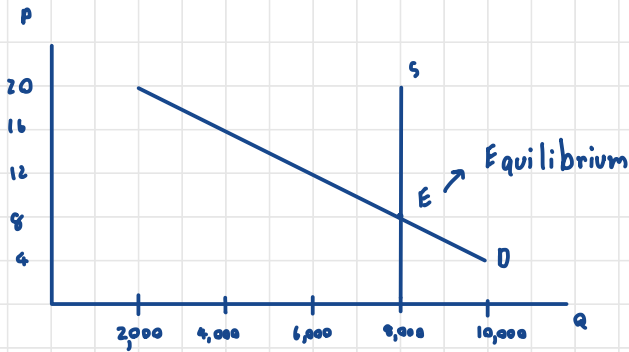
at E_1

A stock market crash make people's wealth decreases.

When people's wealth decreases, the demand also decreases

because they will spend less money.

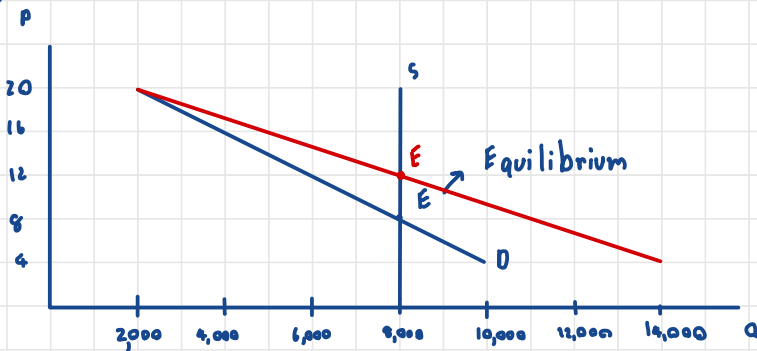
a)



a) Supply curve of this market is inelastic to price. No matter what price is, the quantity supplied still the same.

b) Equilibrium for this market is at E which the price is 8 \$ and quantity of tickets is 8,000.

c)



For new equilibrium price is 12 \$ and quantity is 8,000