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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.~~

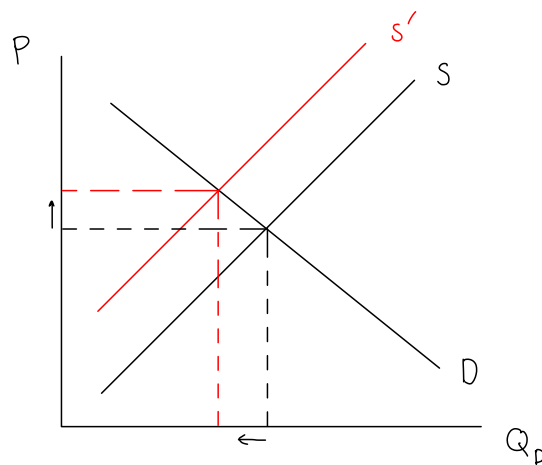
b. A strike by steelworkers raises steel prices.

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

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

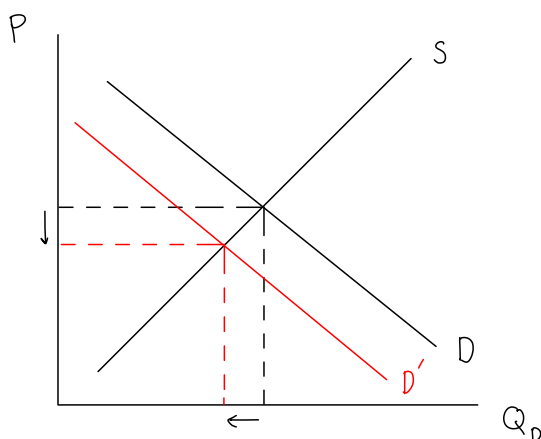
e. A stock market crash lowers people's wealth.

b) # If a strike by steelworkers raises steel prices, the cost of production of minivans will increase. Therefore, the supply will decrease while the demand for minivans still the same



∴ The quantity of minivans will decrease and the price of minivans will increase.

e) If a stock market crash lowers people's wealth, the demand for minivans will decrease because people have less money to buy. However, the supply will not be affected from a stock market crash.



∴ The quantity of minivans will decrease while price of minivans also decrease.

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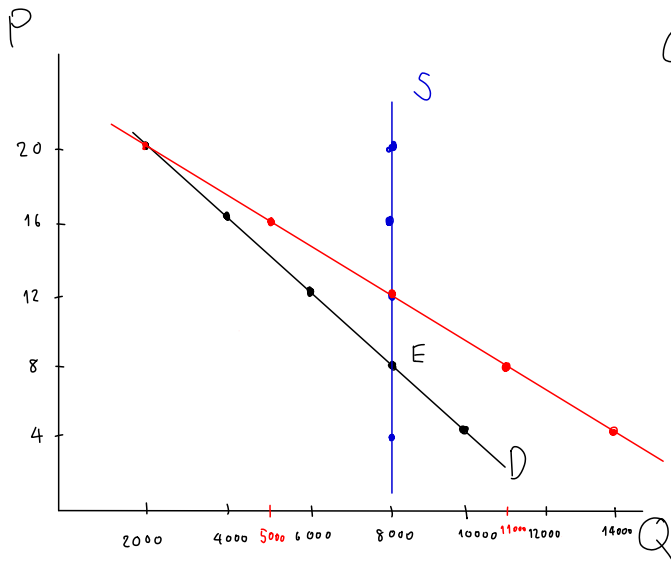
11. Suppose that the price of basketball tickets at your college is determined by market forces. Currently, the demand and supply schedules are as follows:

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

- Draw the demand and supply curves. What is unusual about this supply curve? Why might this be true?
- What are the equilibrium price and quantity of tickets?
- 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?



(a) The supply curve is vertical. The quantity of the tickets is constant because the number of seats is fix

(b) the equilibrium price and quantity of tickets is at price 8 \$ and quantity of 8,000 tickets.

(c)

Price	Quantity Demand	Quantity Supply
\$ 4	14,000 tickets	8,000 tickets
\$ 8	11,000	8,000
\$12	8,000	8,000
\$16	5,000	8,000
\$ 20	2,000	8,000

∴ The new equilibrium price will be at Price \$ 12 , where the quantity will be at 8,000 tickets.