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**EE211 | HW1 | Due Date: Tuesday 11 Feb 2020 by 08.00!**

Instructions:

- 1) Attempt all 4 cases.
- 2) Submit as a PDF file or photo files (A single PDF file preferred)
- 3) On your work, please do not forget to write down your full name and student ID.
- 4) Any questions or concerns, send me your message via [pwrasai@econ.tu.ac.th](mailto:pwrasai@econ.tu.ac.th)

**QUESTION:** In each case, you can introduce a market for a good or service you are interested in. Think and name an event on demand side that might shift the demand curve to a direction specified on each case. Do the same for same for the supply side. Give a full explanation on what will happen to equilibrium price and equilibrium quantity in each case.

**Note:** In each case, it is not necessary to be the same market. Be creative.

**Caveat: Copy and Plagiarism is an academic crime and will not be tolerated. If caught, all parties involved will be penalized by Thammasat University's Honest Code.**

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**CASE 1 Decrease in Demand & Decrease in Supply**

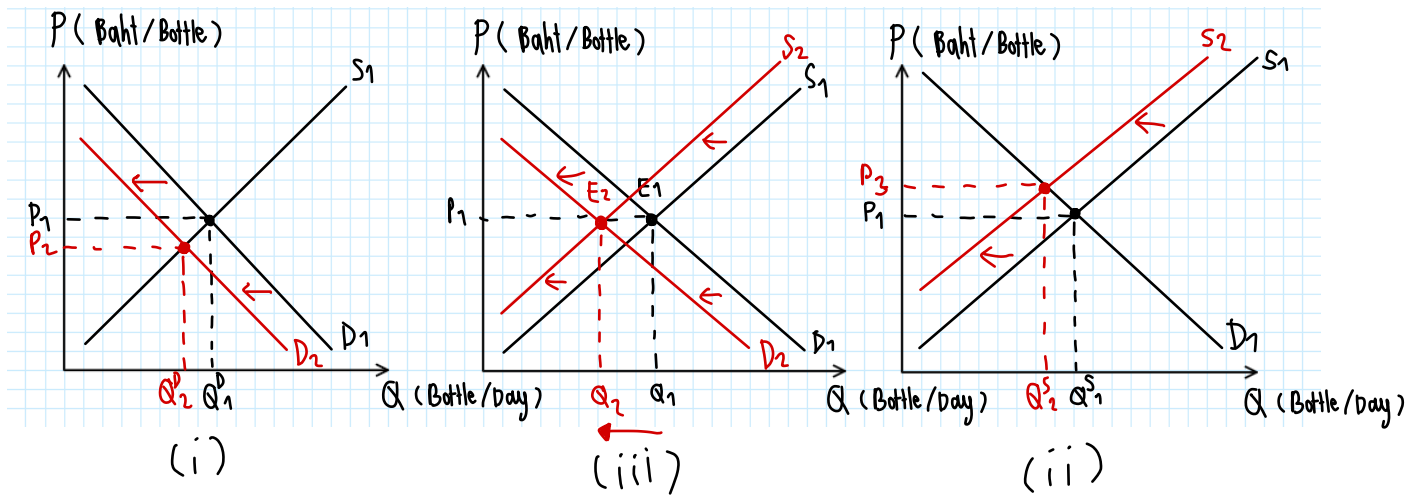
Consider Market for Sunsilk (Shampoo<sub>1</sub>)

EVENT 1 (On Demand Side)

When price of Rejoice (Shampoo<sub>2</sub>) becomes cheaper

EVENT 2 (On Supply Side)

Suppose that cost of producing Sunsilk is higher than before.



**Full Explanation**

- (i) Demand curve shifts to the left from  $D_1$  to  $D_2$ , meaning that buyers are willing to buy less at any observable price.
- (ii) Supply curve shifts to the left from  $S_1$  to  $S_2$ , implying that quantity supplied of Sunsilk has decreased at any price we observed.
- (iii) When both demand and supply decrease, consumers wish to buy less and firm wish to produce less causing the equilibrium market shifts to the left from  $E_1$  to  $E_2$ , the equilibrium quantity falls from  $Q_1$  to  $Q_2$  but equilibrium price remains the same at  $P_1$ .

**CASE 2 Increase in Demand & Increase in Supply**

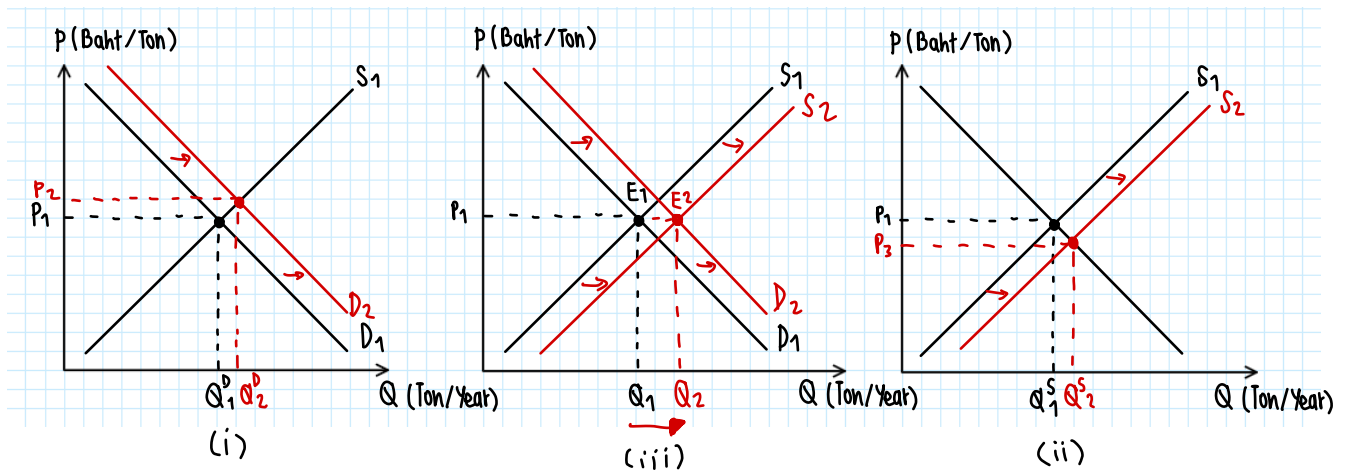
Consider Market for rice

EVENT 1 (On Demand Side)

There is an increasing number of people who consume rice in Thailand.

EVENT 2 (On Supply Side)

New farming tractors are introduced to farmers.



Full Explanation!

- (i) Demand curve shifts to the right from  $D_1$  to  $D_2$  meaning that quantity demanded for rice has increased at any observable price.
- (ii) Supply curve shifts to the right from  $S_1$  to  $S_2$  implying that farmers are willing to produce more rice at any price we observed.
- (iii) When both demand and supply increase, consumers are willing to buy more and farmers wish to produce more causing the equilibrium market shifts to the right from  $E_1$  to  $E_2$  the equilibrium output increases from  $Q_1$  to  $Q_2$  but the equilibrium price remains constant at  $P_1$ .

**CASE 3 Decrease in Demand & Increase in Supply**

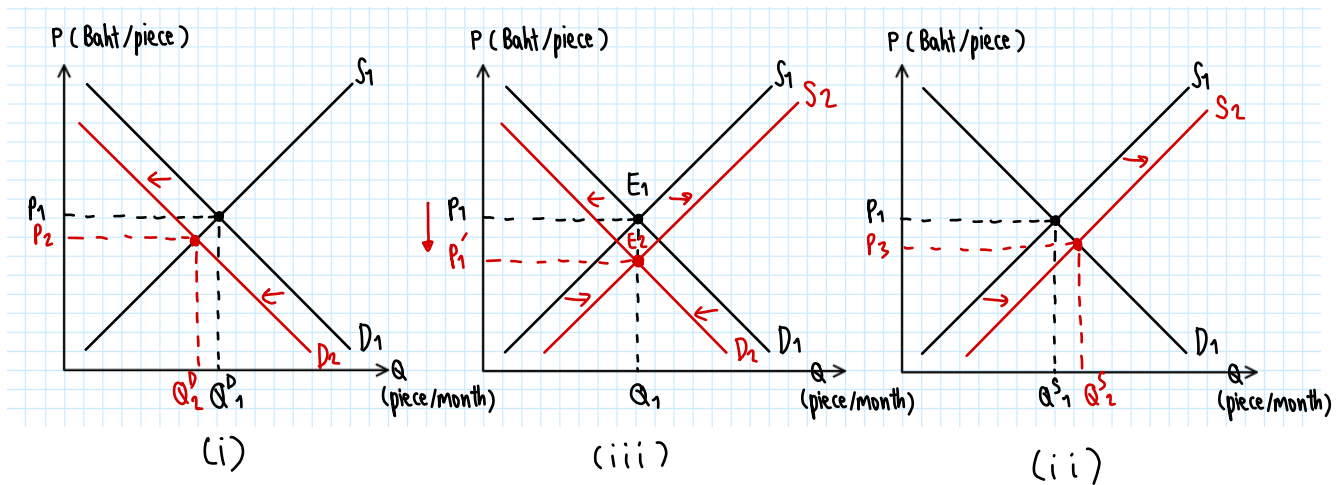
Consider Market for Vintage Clothes

EVENT 1 (On Demand Side)

Most buyers believe that vintage clothes are old-fashioned.

EVENT 2 (On Supply Side)

The price of cotton for producing vintage clothes continues to fall.



**Full Explanation**

- (i) Demand curve shifts to the left from  $D_1$  to  $D_2$  meaning that buyers are willing to buy less at any point we observe.
- (ii) Supply curve shifts right implying that quantity supplied of vintage clothes has increased from  $S_1$  to  $S_2$  at any observable point.
- (iii) A decrease in demand and an increase in supply shift the equilibrium market downward from  $E_1$  to  $E_2$  causing a fall in Equilibrium price from  $P_1$  to  $P'_1$  but there is no change in equilibrium quantity (at  $Q_1$ ).

**CASE 4 Increase in Demand & Decrease in Supply**

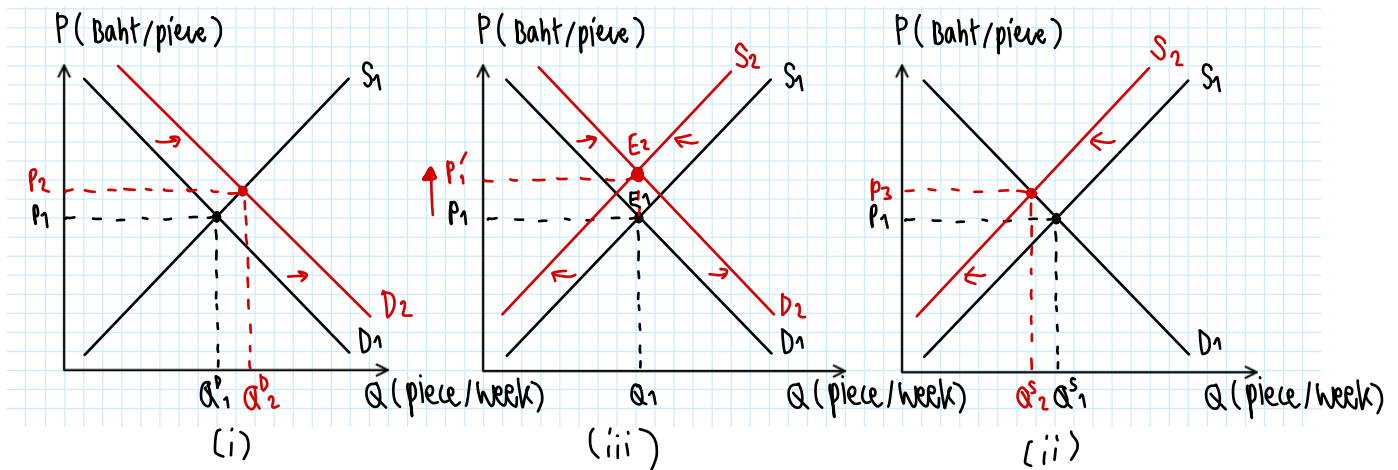
Consider Market for Surgical Mask

EVENT 1 (On Demand Side)

There is an epidemic of Corona Virus over the world, there is a large number of people that want surgical mask for protection.

EVENT 2 (On Supply Side)

There is a restriction for selling mask not more than 10 pieces/person.



Full Explanation

- (i) Demand curve shifts to the right from  $D_1$  to  $D_2$  meaning that quantity demanded for surgical mask has increased at any observable price.
- (ii) Supply curve shifts to the left from  $S_1$  to  $S_2$ , implying that quantity supplied of surgical mask has decreased at any price we observed.
- (iii) Increase in demand and decrease in supply showing that buyers want to buy more masks but producers cannot produce as many as they want because of the restriction so the equilibrium market shifts upward from  $E_1$  to  $E_2$  causing the equilibrium price rises from  $P_1$  to  $P_1'$  but the equilibrium quantity is still the same at  $Q_1$ .