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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.~~

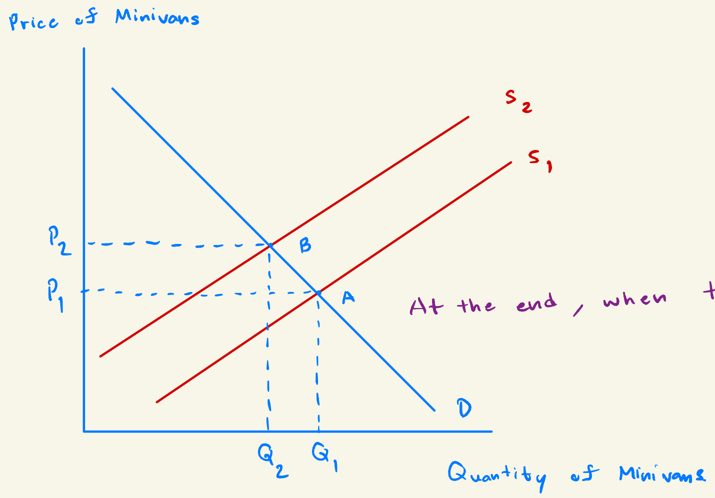
   b. A strike by steelworkers raises steel prices.

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

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

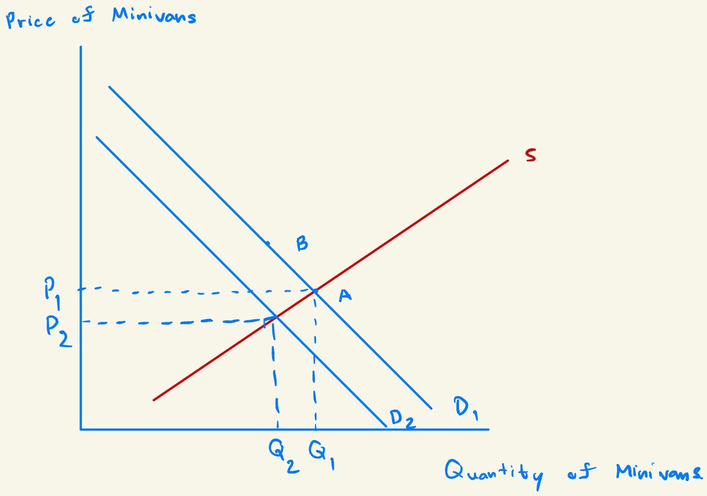
   e. A stock market crash lowers people's wealth.

b.)



At the end, when the price of minivans increases, the quantity sold.

If a strike by steelworkers raises steel prices, which mean the cost of production rises, then the supply of minivans will decrease. On the other hand, demand will not be affected. The old market equilibrium was at point A (Q_1, P_1) where $Q_D = Q_S$, then when the supply decrease (Supply's function changed. from S_1 to S_2). Now the $Q_S < Q_D$ then the price will increase until, in order to reduce Q_D until $Q_D = Q_S$.



If a stock market crash lower people's wealth., meaning that people have less income, which can lead to reduction in demand for minivans. on the other hand, supply will not be affected. At the old market equilibrium at point A (Q_1, P_1), where $Q_D = Q_S$, then when there is reduction in demand for minivans $\rightarrow Q_S > Q_D$, therefore the market price have to decrease, in order to reduce Q_S until $Q_S = Q_D$.

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

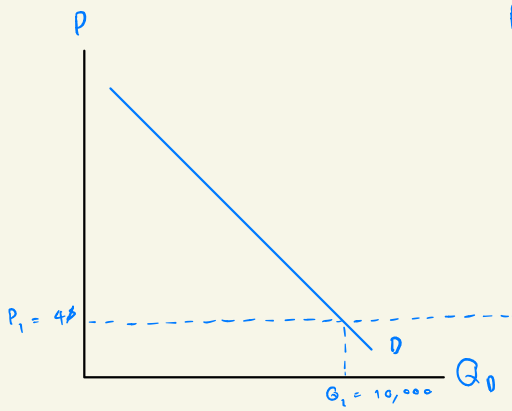
a. Draw the demand and supply curves. What is unusual about this supply curve? Why might this be true?

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

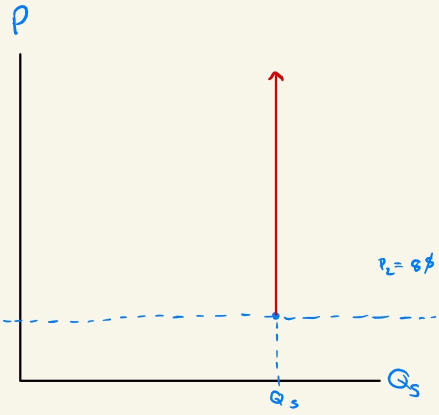
c. Your college plans to increase total enrollment next year by 5,000 students. The additional students will have the following demand schedule:

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

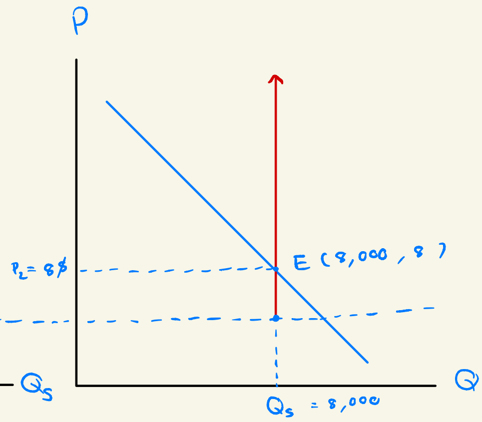
Now add the old demand schedule and the demand schedule for the new students to calculate the new demand schedule for the entire college. What will be the new equilibrium price and quantity?



Demand curve
(Figure 1)



supply curve
(Figure 2)



Market Force
(Figure 3)

a.) Q : What is unusual about this supply curve ?

A: Supply curve has minimum price at 4 $ with fixed quantity : Q_s = 8,000

There fore , the supply curve (Figure 2) has slope - 1 for supply's function.

Q : Why might this be true ?

A : Because it is basketball ticket, which mean they will have limited seat.

b.) what are the equilibrium price and quantity of tickets ?

At market equilibrium point E (Q_s , P_2) where Q_D = Q_s = 8,000 .

Note that At Q_D = 8,000 , P = 8 $ (From the given table)

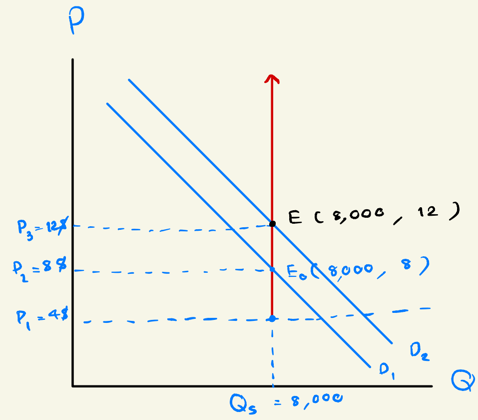
∴ E (8,000 , 8 $)

c.)

Price	Quantity Demanded	Quantity Supplied.
4 $	10,000 + 4,000 = 14,000	8,000
8 $	8,000 + 3,000 = 11,000	8,000
12 $	6,000 + 2,000 = 8,000	8,000
16 $	4,000 + 1,000 = 5,000	8,000
20 $	2,000 + 0 = 2,000	8,000

$\underbrace{\qquad\qquad}_{Q_D \text{ increase at the same price}}$

Meaning Demand's Function increases. from D_1 to D_2



Market Force

(Figure 3)