

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.

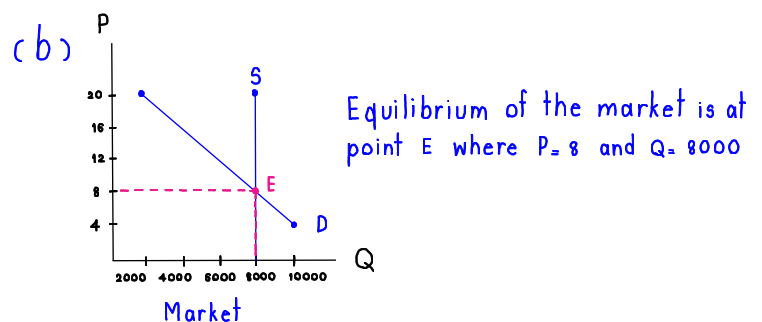
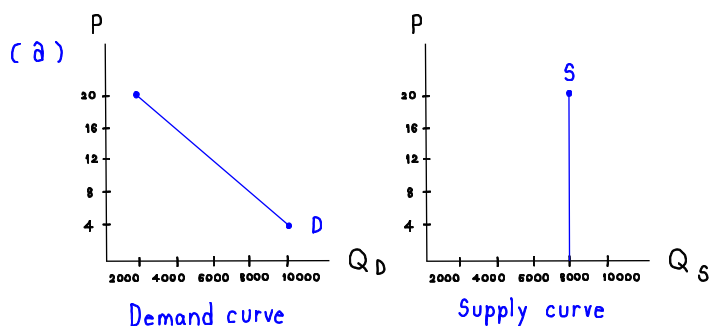
11. Suppose that the price of basketball tickets at your college is determined by market forces. Currently, the demand and supply schedules are as follows:

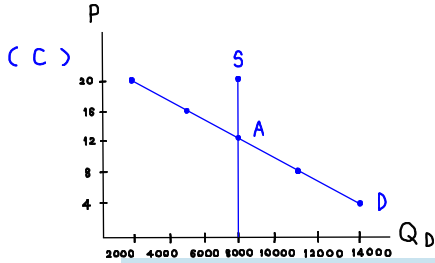
Price	Quantity Demanded	Quantity Supplied
\$4	10,000 tickets	8,000 tickets
8	8,000	8,000
12	6,000	8,000
16	4,000	8,000
20	2,000	8,000

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:





New equilibrium is at point A
where $P = 12, Q = 8000$

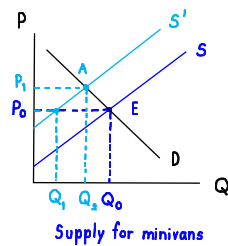
Demand curve

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?

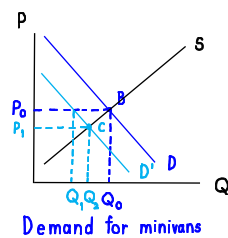
3.

b. Supply would be affected by an increase in price of inputs (steel) so the firm can buy less steel and produce less number of minivans. Then, supply will decrease.



At first, the equilibrium is at point E (Q_0, P_0) , then the supply decreased. At P_0 , there is an excess in demand so the price need to be raise to reduce the demand and meet new equilibrium at A (Q_1, P_1) .

e. Demand would be affected by a decrease in people's wealth. People will has less potential to pay so demand will decrease.



At first, the equilibrium is at point B (Q_0, P_0) , then the demand decreased. At P_0 , there is an excess in supply so the price need to be reduce to increase the demand and meet new equilibrium at C (Q_1, P_1) .