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HW#4 From Problem and Applications of Mankiw book, Chapter 4 The Market Forces of Supply and Demand

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.~~

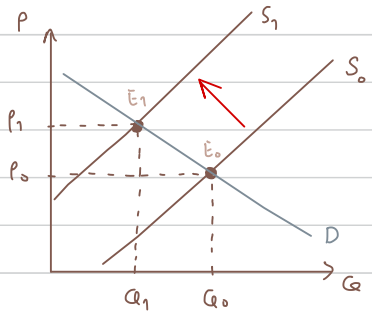
b. A strike by steelworkers raises steel prices.

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

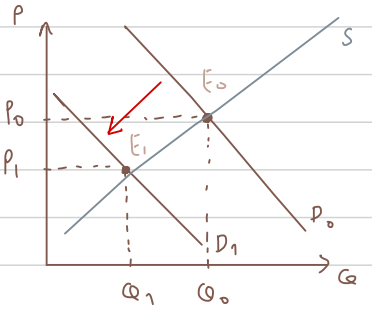
~~d. The price of sports utility vehicles rises.~~

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

#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.



b) When the cost of steel which is the input of minivans were increased, it led to the decreasing of supply from S_0 to S_1 due to the fact that minivan market prefer to produce less than before while demand of customer still the same and this situation effected the equilibrium line by changing to the left from E_0 to E_1.



e) When stock market crash which can affect the power of buyer was decreased, it led to the less willing and able to buy of customer. So, demand of customer will shift to the left from D_0 to D_1 while supply still the same and that is the caused which create the new equilibrium line.

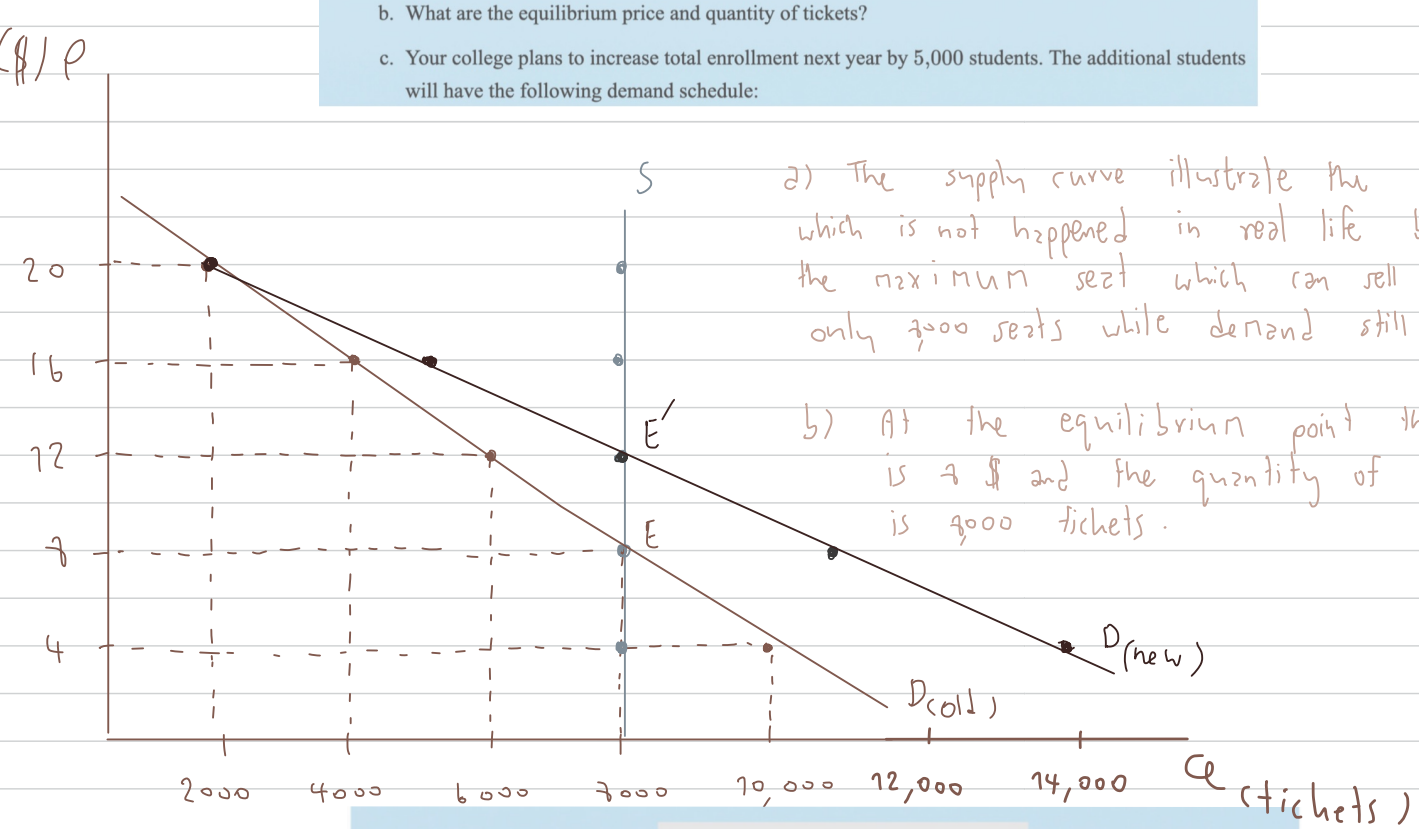
11. Suppose that the price of basketball tickets at your college is determined by market forces. Currently, the demand and supply schedules are as follows:

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:



a) The supply curve illustrate the extreme which is not happened in real life because the maximum seat which can sell have only 8000 seats while demand still increase.

b) At the equilibrium point the price is 8 $ and the quantity of tickets is 8000 tickets.

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?

New demand schedule for the entire college

Price	Quantity Demanded
4	14,000
8	11,000
12	8000
16	5,000
20	2,000

Equilibrium point will be changed from E to E' by changing price from 8 $ to 12 $ and quantities still the same at 8000.