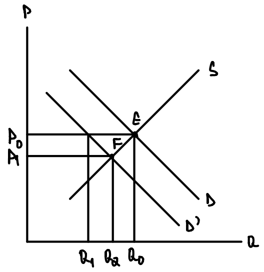
10 / 09 / 20

1. b.



Consider the market for minivans for a strike by steelworkers raises steel prices

the determinants of demand are affected

Demand is decreasing

The diagram shown above shows the effect of decreasing in price and quantity demanded of minivans

Before the event, the equilibrium is at $E(Q_0, P_0)$ where we have equilibrium condition $Q_D = Q_S$

The event lower the demand from D to D'

Then, at the original equilibrium price P_0, we have quantity demanded Q_1 and quantity supplied Q_0

∴ Excess Supply = $Q_0 - Q_1 > 0$

This leads to lower price by Assumption #5 of Market with perfect competition

↳ Given a price P_0, the market demand and market supply will respond with Q_D and Q_S

If $Q_D < Q_S$, the buyers will offer lower price

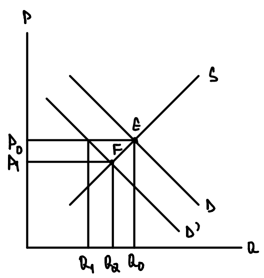
Excess $S = Q_S - Q_D$

If Excess $S > 0$, market price decreases

The price will keep decreasing until it is at P_1 where Excess $S = 0$ because $Q_D = Q_S$, we have Equilibrium Condition

The new equilibrium point is at $F(Q_1, P_2)$, lower equilibrium price and quantity

e.



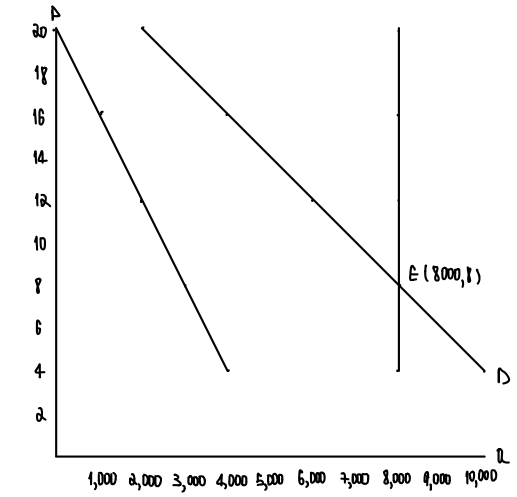
Consider the market for minivans for a stock market crash lowers people's wealth

Demand is decreasing

The diagram shown above shows the effect of decreasing in price and quantity demanded of minivans

The market mechanism is as same as b.

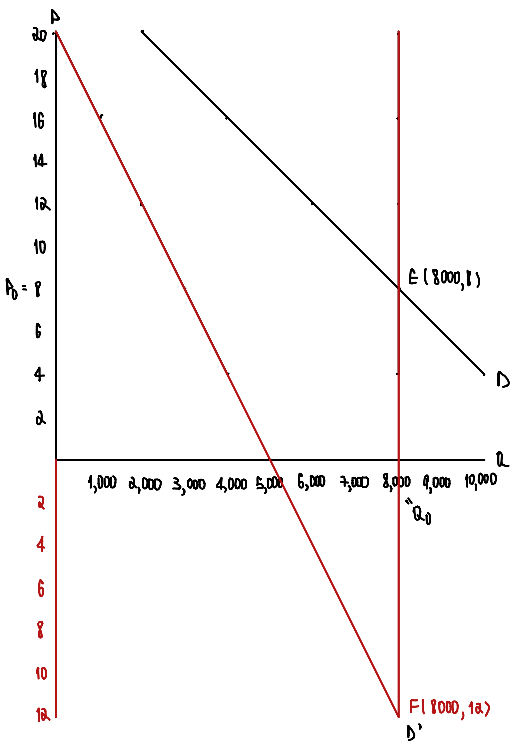
2. a.



The supply curve has infinity slope which mean there is no limit for willingness and ability to sell

b. The equilibrium price and quantity of ticket is at E (8000,8) where we have equilibrium condition $Q_D = Q_S$

c.



The equilibrium price and quantity of ticket is at F (8000,12) where we have equilibrium condition $Q_D = Q_S$