

HW#6 Due Feb 10, 2022

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, 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.

#2

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

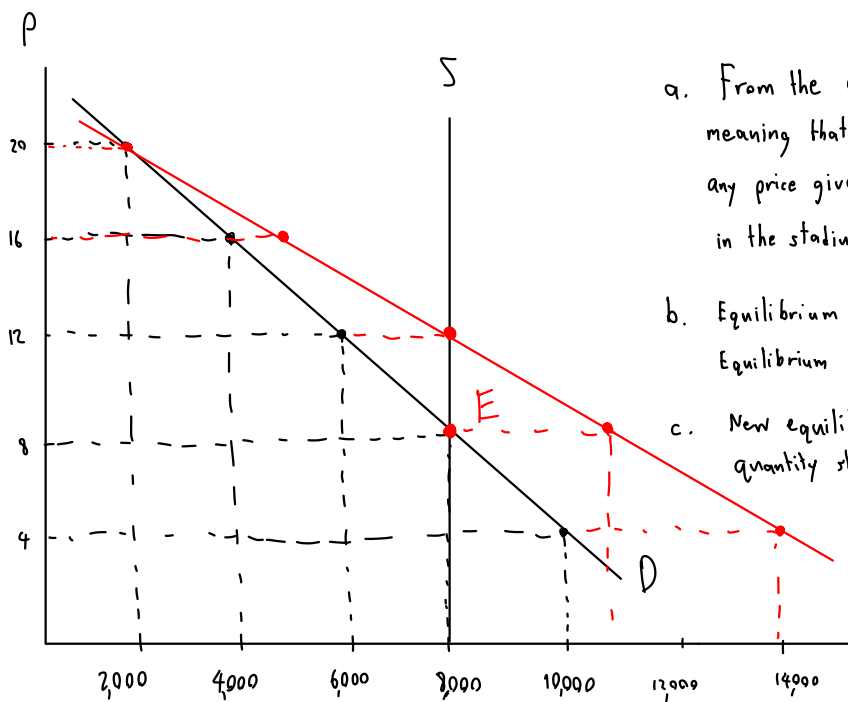
a. Draw the demand and supply curves. What is unusual about this supply curve? Why might this be true?

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:

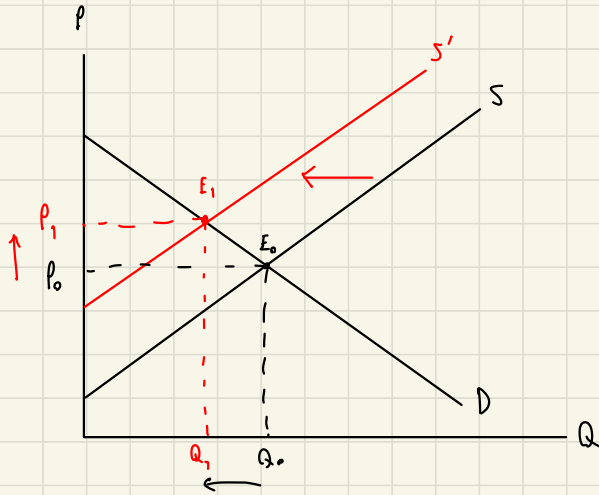
Price	Quantity Demanded	
\$4	4,000 tickets	14,000
8	3,000	11,000
12	2,000	8,000
16	1,000	5,000
20	0	2,000

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?



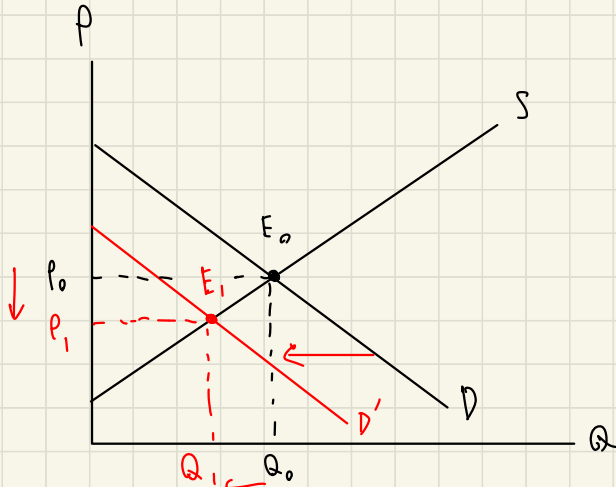
- From the diagram, the supply curve is vertical meaning that the quantity supplied is 8,000 tickets at any price given because it is the maximum seats available in the stadium is 8,000 tickets.
- Equilibrium Price = \$8
Equilibrium Quantity = 8,000 tickets
- New equilibrium price is at \$12 and new equilibrium quantity stays the same at 8,000 tickets

b.



When Price increases, it leads to the decrease in supply curve which shifts to the left. Meaning that the quantity demanded also decrease. When the price of raw material increases, the producers might produce less, so the supply decreases. Then the producers are willing and able to sell at a higher price, so the consumers would buy less so quantity demanded also decrease.

e.



When people's wealth decreases, the ability to buy also decreases causing the demand to decrease (shifts left). This leads to a decrease in price in the market from P_0 to P_1 .