

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 unchanged
\$4	10,000 tickets	8,000 tickets
8 <sup>x 2</sup>	8,000	8,000
12 <sup>x 3</sup>	6,000	8,000
16 <sup>x 4</sup>	4,000	8,000
20 <sup>x 5</sup>	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?

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

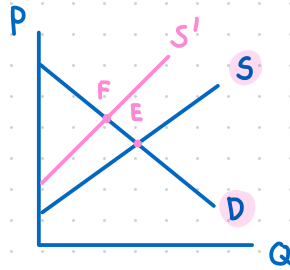
*new eq<sup>m</sup>*

3 b) A strike by steelworkers raises steel prices

⇒ the event affects the price of minivans to be higher as the cost of raw materials increases.

Demand of minivans unchanged. Supply of minivans ↑

$P \uparrow$ ,  $Q \downarrow$

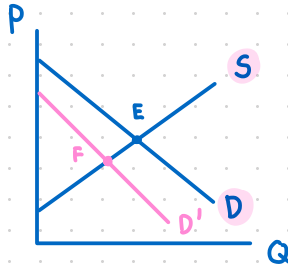


e) A stock market crash lowers people's wealth

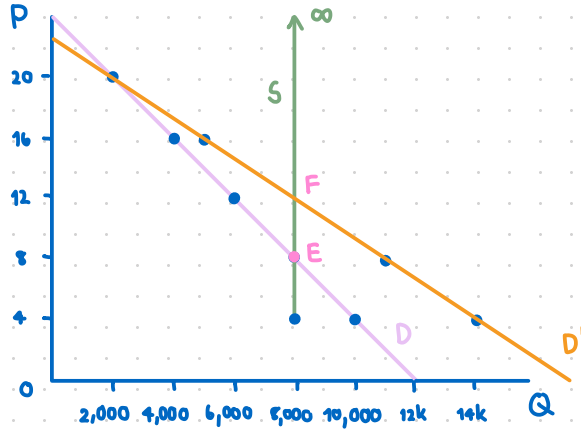
⇒ the event affects the quantity of minivans to be lower as people has less income.

Demand of minivans ↓ Supply of minivans unchanged

At point F  
= new eq<sup>m</sup>



11 a)



the unusual of supply curve is it is extreme case: vertical supply which might be true because the seller is willing to sell at least at the price of \$4 and the tickets are limited at 8,000 seats.

b) The equilibrium price and quantity is at point E (8000 tickets, \$8)

c) The new equilibrium price and quantity is at point F (8000 tickets, \$12)

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