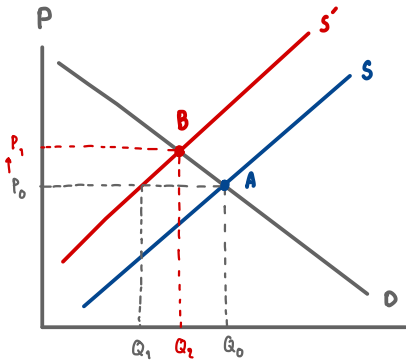


① Consider the market for minivans. For each of the events listed here, identify which of the determinants of demand or supply are affected. Also indicate whether demand or supply increases or decreases. Then draw a diagram to show the effect on the price and quantity of minivans.

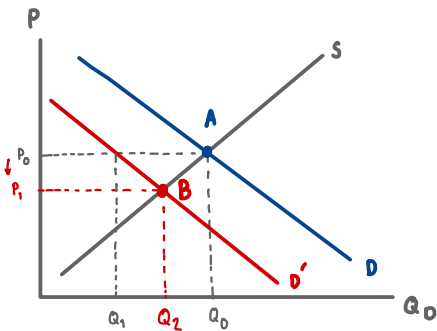
#1 Answer only part (b) and (e). Follow the instruction of the question and, in addition, and describe the market mechanism that causes the change in the market equilibrium.

b) A strike by steelworkers raises steel prices.



- If a strike by steelworkers raises steel prices, the cost of the input price will be higher. So, the supply decreases and the demand wouldn't be affected. ✘
- A strike by steelworkers shifts  $S$  to  $S'$
- At  $P_0$ , quantity demanded =  $Q_0$   
quantity supplied =  $Q_1$   
 $\therefore$  Excess D =  $Q_0 - Q_1 > 0$
- When the price increases to  $P_1$ , Excess D = 0 ( $Q_D = Q_S$ )
- The new equilibrium point is at B =  $(Q_2, P_1)$

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

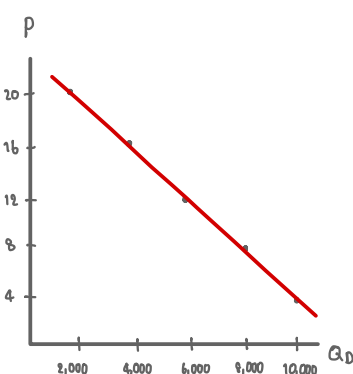


- When a stock market crash, this leads to people's lower income. Meaning that the demand decreases and supply isn't affected. ✘
- A stock market crash lower  $D$  to  $D'$
- At  $P_0$ , Quantity demanded =  $Q_1$   
Quantity supplied =  $Q_0$   
 $\therefore$  Excess S =  $Q_0 - Q_1 > 0$
- When the price reaches  $P_1$ , Excess S = 0 ( $Q_D = Q_S$ )
- The new equilibrium point is at B =  $(Q_2, P_1)$

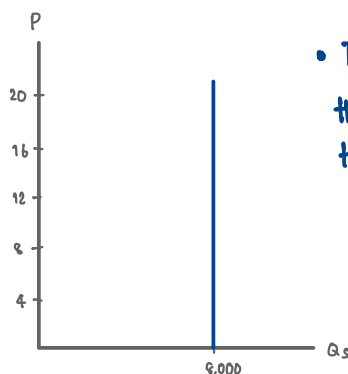
② Suppose that the price of basketball tickets at your college is determined by market forces. Currently, the demand and supply schedules are as follows:

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?



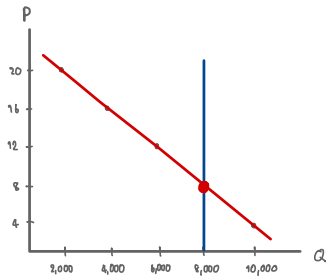
Demand Curve



Supply Curve

- The supply curve is vertical. This might be true because the seat has limited number, as the quantity supplied is 8,000 tickets at any price. ✘

b) What are the equilibrium price and quantity of tickets?

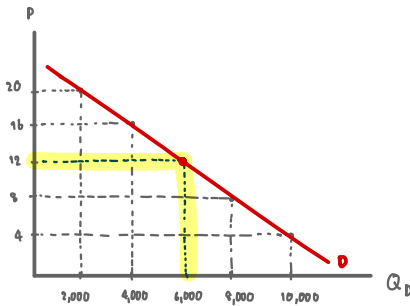


Ans. According to the graph, at the intersection point, the equilibrium price is 8 dollars and the equilibrium quantity is 8,000 tickets. ✖

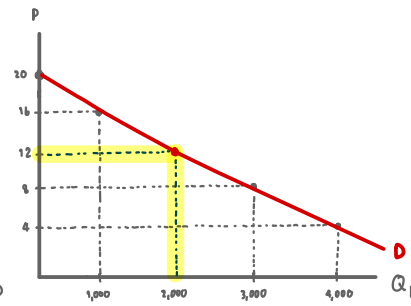
c) Your college plans to increase total enrollment next year by 5,000 students. The additional students will have the following demand schedule:

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

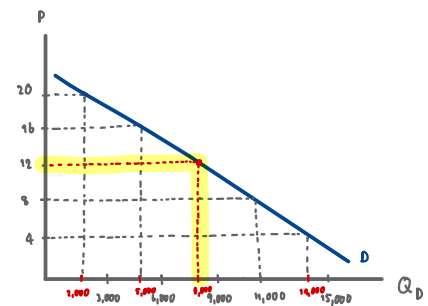
Now add the old demand schedule and the demand schedule for the new students to calculate the new demand schedule for the entire college. What will be the new equilibrium price and quantity?



Old demand



New Demand



Market Demand

Ans. From the Market demand, the new equilibrium price equals to \$12 and the equilibrium quantity is 8,000 tickets ✖