Supawit # 6304641498

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 |
|---|---|---|
| $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:

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| 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?

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.

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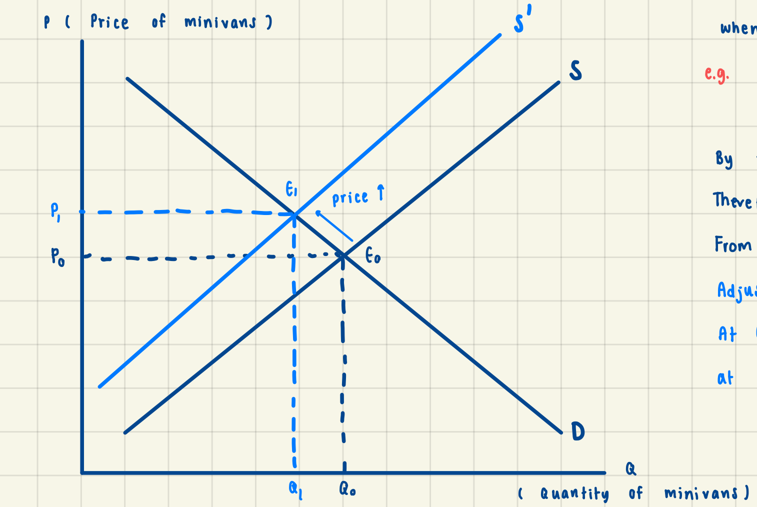
b. A strike by steelworkers raises steel prices. ← this process leads to increasing in "Price"

↳ price of inputs increase




when steelworkers raises steel prices means that cost of production ( minivans) increases

e.g. supposed that we need 10 pieces of steel with a price 100 ฿

then steel workers raises steel price if we spend 100 ฿ will not enough . So we need to pay > 100 ฿.

By the previous example this situation will effected supply curve and won't effected demand curve .

Therefore, the supply curve shifts to the left with P increases for $P_0$ to $P_1$ and Q decreases from $Q_0$ to $Q_1$

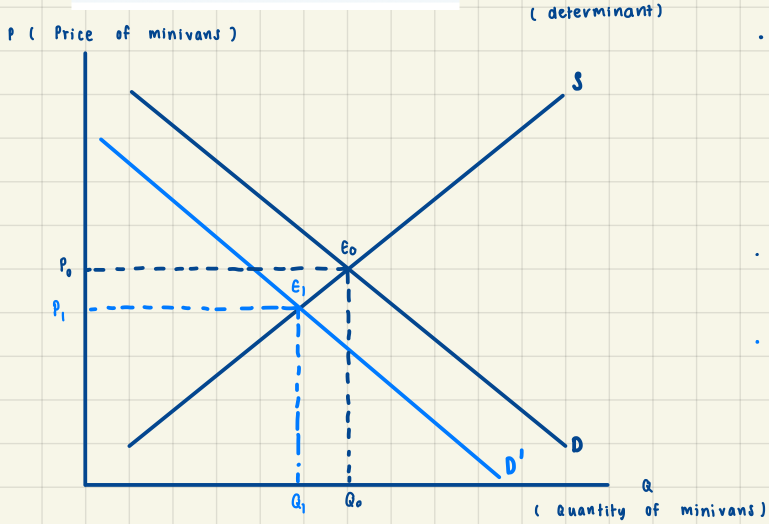
From S' we will have new equilibrium $E_1$ ( $P_1$, $Q_1$ )

Adjustment from $E_0$ to $E_1$ ( new equilibrium )

At $E_0$ , $Q_D > Q_S$ ( Excess demand ) then the price will increase and Q will decrease until $Q_D = Q_S$ at new equilibrium point $E_1$

e. A stock market crash lowers people's wealth. → effected income to decrease

( determinant )




the determinant

- If a stock market crash lower people's wealth . Firstly, it will effect income of consumer to derease . When consumer has less income their willingness to spend money will decrease . Therefore, it will effected the demand ( demand curve ) to decrease

  e.g. If you have less money , you will want to spend less money too . ( In this case want to buy minivans less )

- At old equilibrium $E_0$ ( $P_0$, $Q_0$ ) when demand decrease from D to D' ( $P_1$, $Q_1$ ) we will get new equilibrium $E_1$
- Adjustment from $E_0$ to $E_1$

  At $E_0$ , $Q_S > Q_D$ , which is excess supply . Therefore , price of minivans have to decrease in order to reduce $Q_S$ until $Q_S = Q_D$ at new equilibrium point $E_1$

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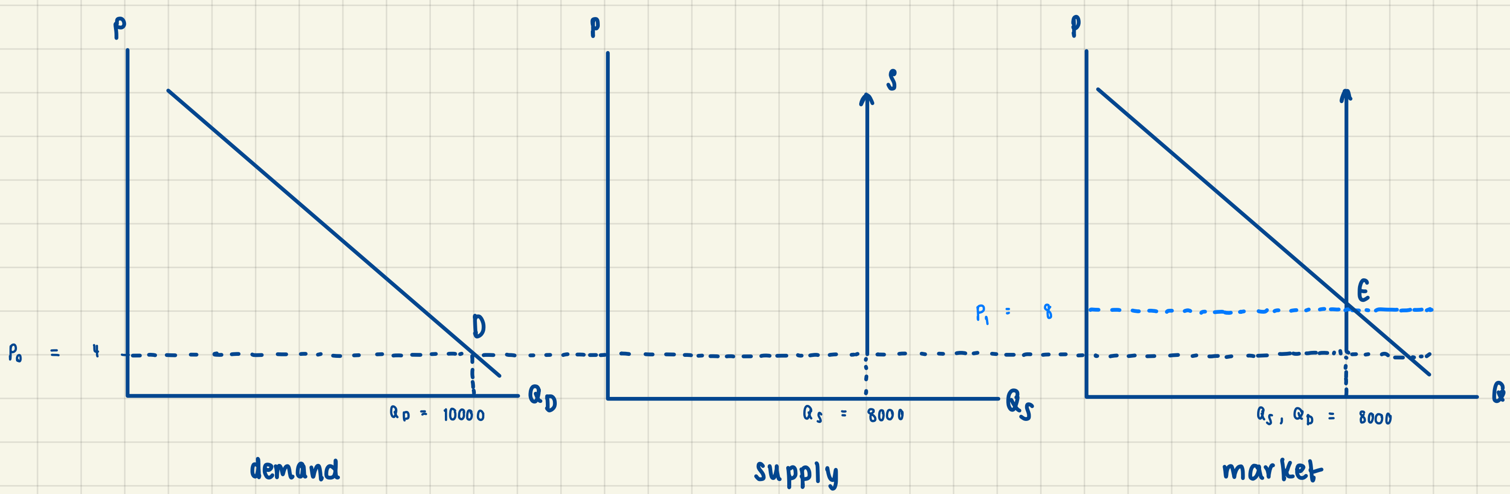
a. Draw the demand and supply curves. What is unusual about this supply curve? Why might this be true?

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:




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

- The supply curve is unusual because it is an extreme case. ( vertical S. curve)
- Because in the stadium will have limited seats.

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

price at 8 $ and quantity at 8000 seats.

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

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| Price | Quantity Demanded |
| --- | --- |
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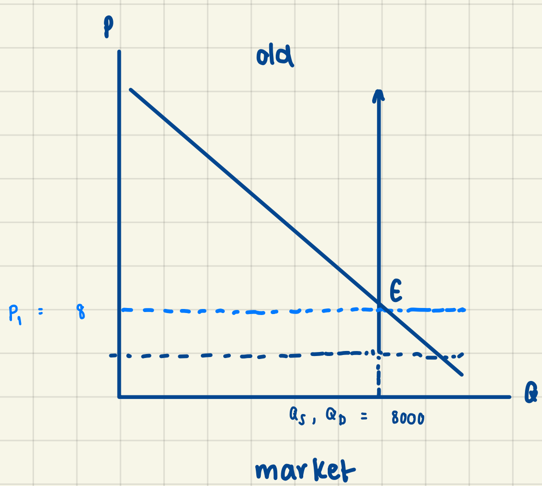
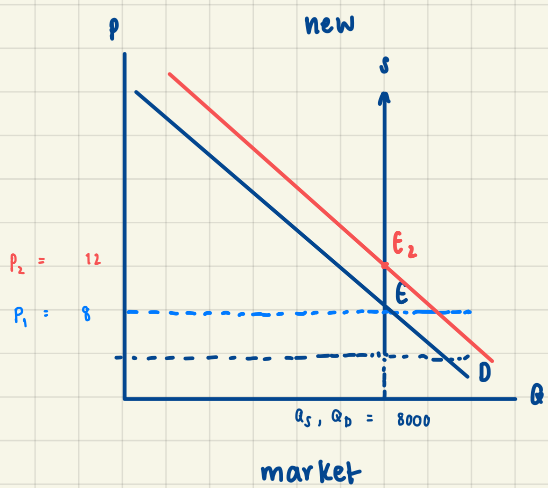
| 20 | 0 |

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 schedule.

| Price | Quantity Demanded | Quantity Supplied |
| --- | --- | --- |
| $4 | 10,000 tickets + 4000 | 8,000 tickets |
| 8 | 8,000 + 3000 | 8,000 |
| 12 | 6,000 + 2000 | 8,000 |
| 16 | 4,000 + 1000 | 8,000 |
| 20 | 2,000 + 0 | 8,000 |




• new equilibrium price and quantity is at Price = 8 \$

Quantity = 8000 seats.