

HW#4 From Problem and Applications of Mankiw book, Chapter 4 The Market Forces of Supply and Demand

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. *income ↓*

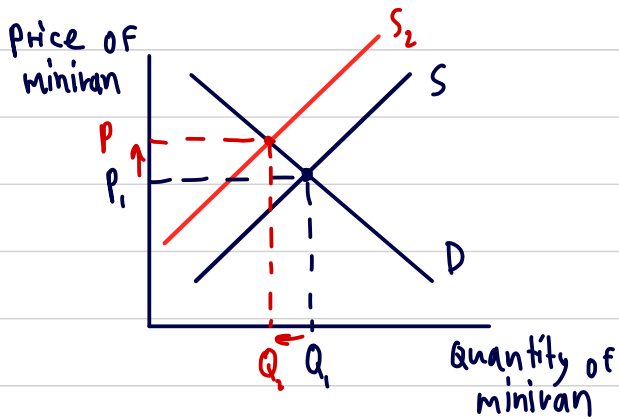
#1 Answer only part (b) and (e). Follow the instruction of the question and, in addition, describe the market mechanism that causes the change in the market equilibrium.

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:

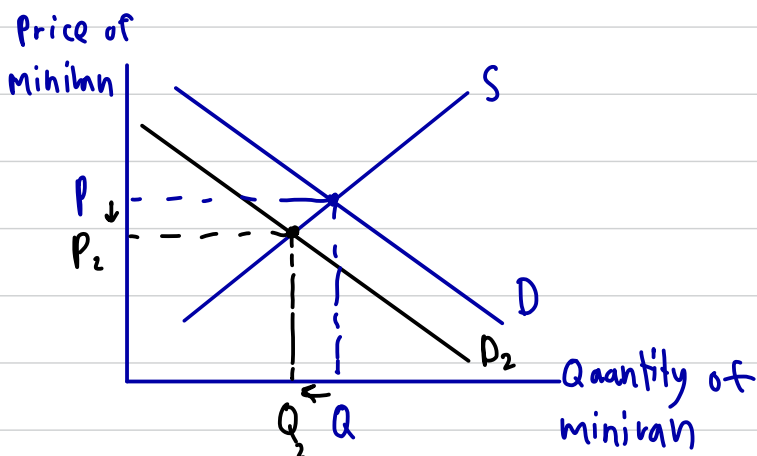
Price	Quantity Demanded	Quantity Supplied
\$4	10,000 tickets	8,000 tickets
8	8,000	8,000
12	6,000	8,000
16	4,000	8,000
20	2,000	8,000

- Draw the demand and supply curves. What is unusual about this supply curve? Why might this be true?
- What are the equilibrium price and quantity of tickets?
- Your college plans to increase total enrollment next year by 5,000 students. The additional students will have the following demand schedule:

3b) If a strike by steelworker raise steel price, the cost of producing a minivan rises because of rise in input price. Therefore the supply of minivan decreases and the demand won't be affected. The result is a rise in the price of minivan and decline in quantity, as the graph.

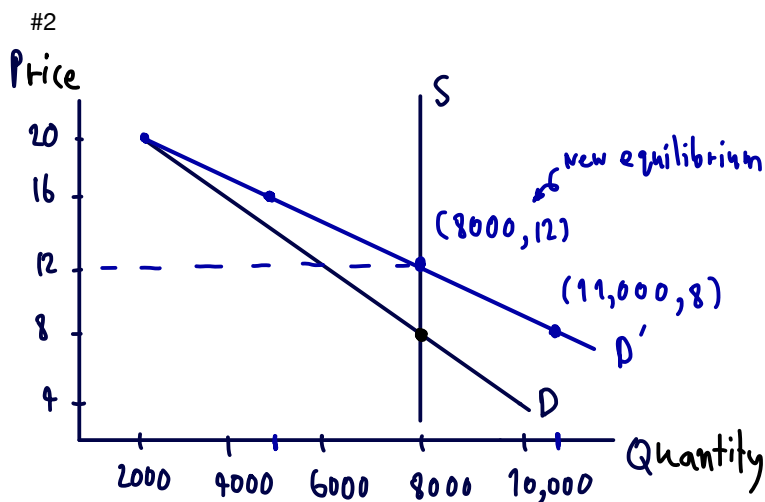


3c) The stock market crash, by lowering wealth, mean that people has less income available for consumption. Therefore, it lead to a decreases in demand for minivan. The result is a decline in both price and quantity, as the graph



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?



a) the supply curve is vertical because the stadium has a fixed number of seats

b) The equilibrium price is \$8 and the equilibrium quantity is 8,000 tickets.

c) The new equilibrium price is \$12 and the equilibrium quantity is the same at : 8000 tickets