

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?

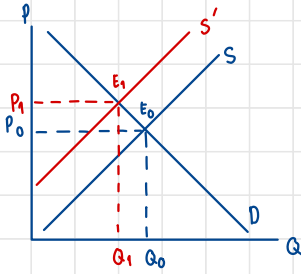
b. What are the equilibrium price and quantity of tickets?

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 |
| 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?

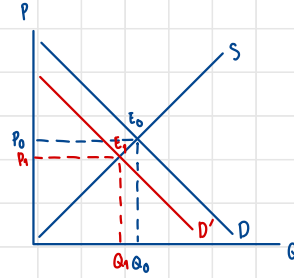
③ b)



A strike from by steelworks affects supplies of minivans to decrease because when steel workers want more wages to continue working, cost production of minivan also increase

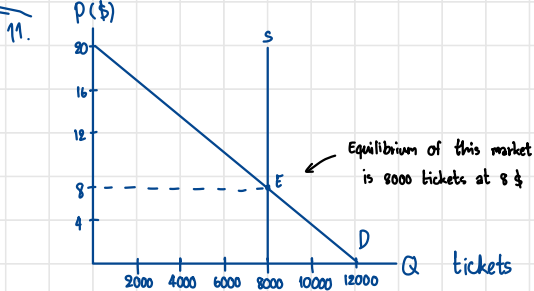
At point E_0 , this is equilibrium of normal situation. When a strike happens, the supplies of minivans decrease and shift left from Q_0 to Q_1 and also the price increase from P_0 to P_1 .

e)



From this situation, when the stock market crashes, it makes wealth of people to decrease which means that when people's wealth is lower, they tend to purchases less. This will affects demand to be lower.

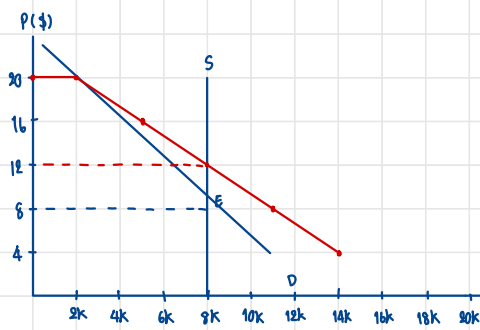
At point E_0 , Normal situation of minivans market. When the stock market crashes, people's wealth decrease that makes demands to buy minivans to decrease and shift left. The company has to decrease their price from P_0 to P_1 and reduce production from Q_0 to Q_1



a) Supply curve of this market is inelastic to price no matter what price will be, the quantity supplied will still the same.

b) Equilibrium of this market is at point E which equilibrium demand is 8000 tickets at equilibrium price 8\$.

C) Enrollment more 5000 students



The new equilibrium of quantity demand is 8000 tickets at price 12 \$