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.

#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.

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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?

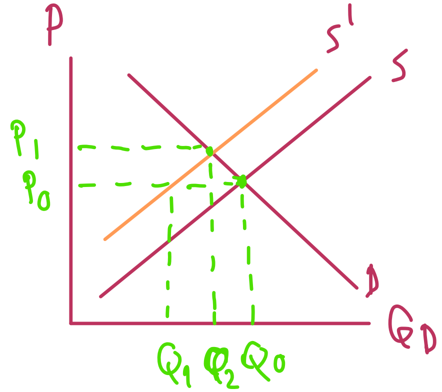
#2

#1 b a strike by steelworkers raises steel prices.

1) supply is affected

2) supply decreases

3)

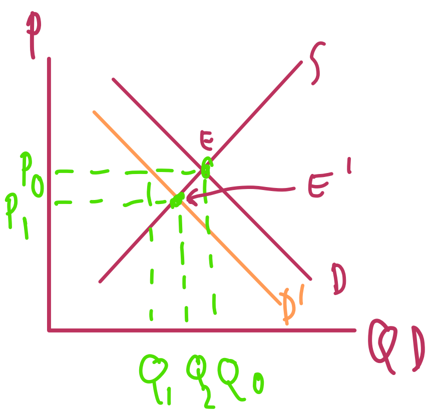


4) market mechanism

A strike by steelworkers raises steel price, resulting in lower supply. Before this incident, the equilibrium is at point E where QD = QS. This strike lowers the supply from S to S'. Then at original equilibrium price P_0, Quantity demand is Q_0, and Quantity supply is Q_1. This contributes to excess demand, leading to higher price by assumtion #5. The price will keep increasing until point P', where excess demand is 0, due to equilibrium condition $Q_D = Q_S$. The new equilibrium point is at E' (Q_2, P_1).

1e A stock market crash lowers people's wealth

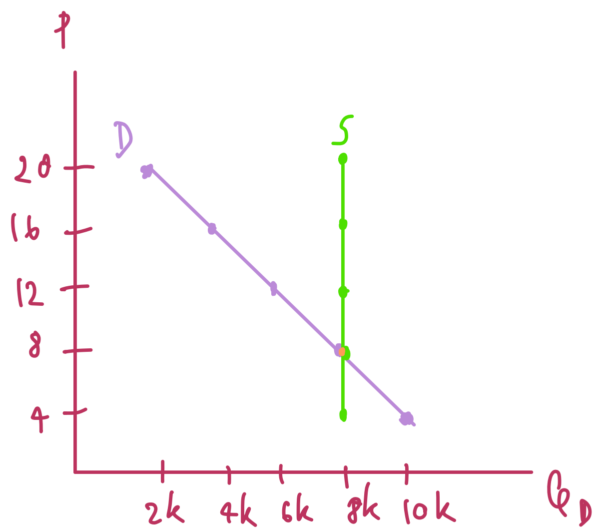
1) demand is affected
2) demand decreases
3)



4) market mechanism

A stock market crash lowers people's wealth, causing lower demand. Prior to this situation, the equilibrium is at point E, where $Q_D = Q_S$. This crash lowers the demand from D to D'. then at original equilibrium price P_0, Quantity demanded is Q_1, and Quantity supply is Q_0. This results in excess supply, advancing to lower price by assumption #5. The price will keep slumping until point P_1, where excess supply is 0, thanks to equilibrium condition $Q_D = Q_S$. The new equilibrium point is at E' (Q_2, P_1).

#2 basketball ticket



a. What is unusual about this supply curve?

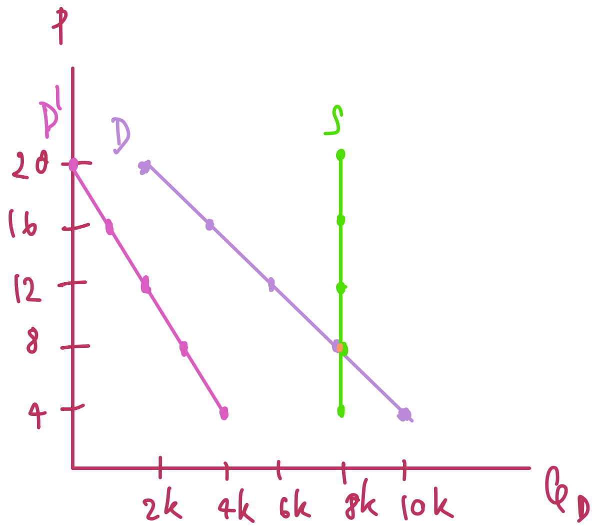
ans: Quantity supply of these football tickets is stable at 8,000 tickets.

Why might this be true

ans: Because it is possible that the quantity of ticket is fixed at maximum 8,000. And price is flexible at any quantity.

(b) What are the equilibrium price and quantity of price? ans: 8,000

(c) add new demand. What is new equilibrium price and quantity?



ans: no new equilibrium point because there is no point when the $Q_D = Q_S$.