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.

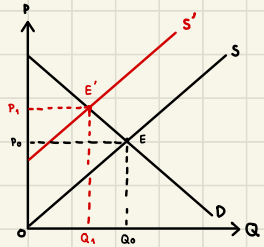
   b. A strike by steelworkers raises steel prices.

   c. Engineers develop new automated machinery for the production of minivans.

   d. The price of sports utility vehicles rises.

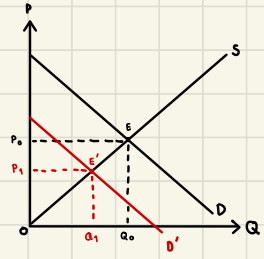
   e. A stock market crash lowers people's wealth.

#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.



b) Supply of market for minivan is affected.

because the steel's price increases so the minivan sellers will buy less steel because steel is a part of minivan, which mean the supply will decrease. Supply line will shift left as you can see in the graph (S → S'). Demand of market for minivan is not affected because price of steel will effect only demand of sellers. The new market equilibrium will have less quantity and higher prices.



e) Demand of market for minivan is affected.

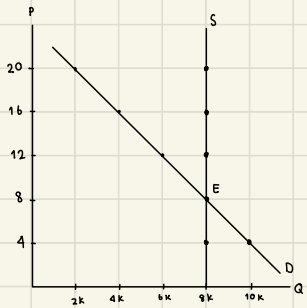
because when the stock market crashed, people will get lower money. And when we have less money than usual, we don't want to buy anything. This mean the demand of market for minivan is decrease and demand line will shift left (D → D'). Quantity of new market equilibrium will decrease, same as prices.

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?



(a) This is extreme case of supply because supply has same quantity at every points.

Every points have same quantity because college has to fixed number of the tickets.

(b) Equilibrium price of tickets = $8

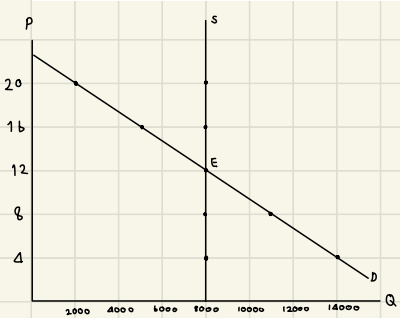
Equilibrium quantity of tickets = 8000 tickets

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?

NEW QUANTITY DEMANDED
14000
11000
8000
5000
2000



New equilibrium price = $12

New equilibrium quantity = old equilibrium quantity = 8000 tickets