H.W.#4

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.

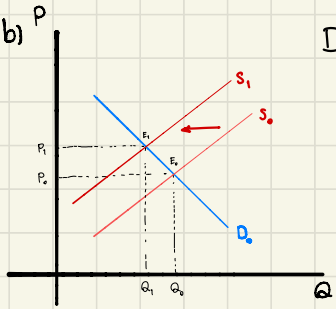
   c. Engineers develop new automated machinery for the production of minivans.

   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)

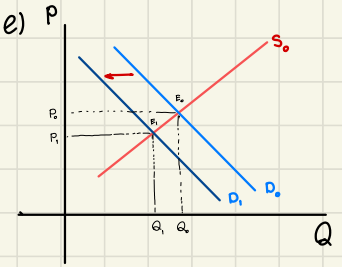


(market)

Due to an increase in steel prices, the supply line will decrease by shifting to the left.

- The supply curve shifts because steel is one of the inputs of the product (minivan). When the price of steel get higher, the sellers want to sell less quantities.
- The demand curve stay the same because there is no factors that affects the change in demand.
- Since the demand stay the same but supply change, the equilibrium shifts upward from E_0 to E_1.

e)



(market)

Due to the crash of a stock market, the demand curve will decrease by shifting to the left.

- The demand curve shifts to the left because if a stock market is fallen and the people's wealth is lower. This means the income of people has been reduced. Since an income is one of the factors that impact the shift in quantity demanded, we consider the demand curve to shift to the left. When people get less income, they decide to buy less.
- The supply curve stays the same because there is no factors that has effect on supply curve.
- Since the demand curve shifts to the left (decrease) and supply curve stay the same, the equilibrium point will go downward because the excess supply to the point E_1.

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?

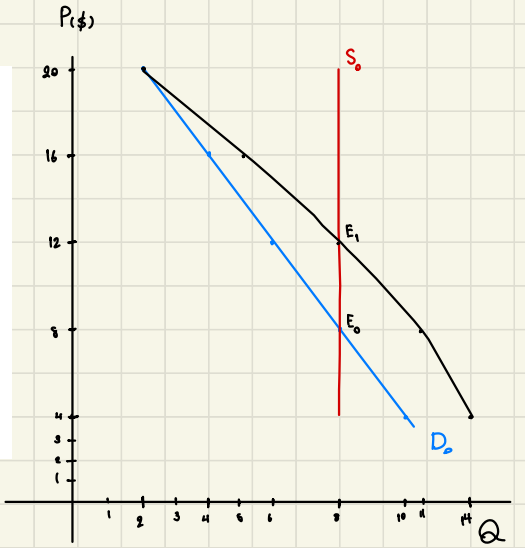
b. What are the equilibrium price and quantity of tickets?

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



a) The supply curve is an extreme case — perfectly inelastic which hardly appears in real life. This curve is possible because college has limited seat to serve customer. The quantity is fixed because the numbers of seat correlate with the room size, which cannot be changed.

b) The equilibrium price is at 8 $ per ticket with the quantity of 8000.

c) The equilibrium price is at 12 $ per ticket with the quantity of 8000.

Price ($)	Quantity demanded (tickets)
4	14,000
8	11,000
12	8000
16	5,000
20	2000