

**Econ 2010**  
**Practice Assignment #2**

**SECTION I.**

1. What is the difference between a "change in demand" and a change in "quantity demanded."
2. What is the difference between a "change in supply" and a change in "quantity supplied."
3. What does ceteris paribus mean? How does this relate to supply and demand analysis?
4. Holding demand constant, what is the only thing that can cause a change in quantity demanded? What are the things that cause a change in demand?
5. How do changes in income affect the demand for a good?
6. How do substitute and complementary goods affect the demand for a good.?

**SECTION II.**

1. (2 points) Suppose the market for coffee is currently in equilibrium at a price of \$3 per pound. An early frost in coffee-growing nations decreases the supply of coffee. Use supply and demand analysis to forecast the impact of the freeze on the market equilibrium price and quantity of coffee.
2. (2 points) Suppose the market rate of interest on car loans declines substantially. Use supply and demand analysis to predict the impact of the interest rate decline on the prices of cars and the quantity sold.
3. (4 points) The federal government announces that it will pay \$3 a loaf for all the bread that cant be sold in a competitive market at that price. At the end of each week, the government purchases 1 million loaves of bread. Use supply and demand analysis to show on a graph that the market equilibrium price is less than 3 per loaf. Why doesn't the market price fall in this case?
4. - 7. (3 points apiece)The following problems are based on the demand and supply schedule for gum listed below. All quantities are in millions of packs of gum per month.

<b>Price</b>	<b>Quantity Demanded</b>	<b>Quantity Supplied</b>
\$0.20	180	30
\$030	160	60
\$0.40	140	90
\$0.50	120	120
\$0.60	100	140
\$0.70	80	160
\$0.80	60	180

4. Suppose that the quantity demanded rises by 40 million packs of gum per month at each price.

Draw the initial demand and supply curves as given by the table above. **Call this graph Graph 1.** Label this demand curve D1, and this supply curve S1. Draw the new demand curve given by this change, labeling it D2. Show the new equilibrium price and output, labeling this point A.

5. Assume that the demand curve is now back at D1. Suppose that the quantity demanded falls, relative to the values in the table, by 50 million packs per month at prices between prices of \$0.40 and \$0.70 per pack; at prices of 80 or 90 cents per dozen, the quantity demanded becomes zero. **On Graph 1,** draw the new demand curve, labeling it D3. Show the new equilibrium price and output, labeling this point B. What does it mean to have a quantity demanded of 0 at prices of greater than \$0.80 per pack?

6. Suppose that the quantity supplied rises by 50 million packs per month at each price, while the quantities demanded retain their D1 values. **On a new graph (labeled as Graph 2),** draw D1, S1, and the new supply curve, S2. Show the new equilibrium output and price, labeling this point C.

7. Suppose that the quantity supplied falls, relative to the values given in table (S1), by 80 million packs per month at prices \$0.40 and above; at a price of \$0.30 cents per pack and below, the quantity supplied becomes zero. **On Graph 2,** draw the new supply curve, S3, and show the new equilibrium price and quantity, labeling this point E. What does it mean to have a quantity supplied of 0 at prices of \$0.30 and below?