Answer Key – Practice Homework #2

Section I.

1. A change in demand refers to a change in the amount that consumers are willing to buy at every possible price; in terms of the demand curve, the demand curve shifts. A change in the quantity demanded occurs when the price of the product changes. In this case, in terms of the demand curve, there is a movement along the demand curve.

2. A change in supply refers to a change in the amount that producers are willing to sell at every possible price; in terms of the supply curve, the supply curve shifts. A change in the quantity supplied occurs when the price of the product changes. In this case, in terms of the supply curve, there is a movement along the supply curve.

3. Ceteris paribus means "other things being equal -all relevant things remain the same." Ceteris paribus plays an important role in supply and demand analysis, as if we allow more than one influence of supply or demand to change simultaneously, we cannot accurately determine the effect of one of these influences on supply or demand. By holding all other things constant, and allowing only one of these influences to change, we are able to determine its effect on supply or demand.

4. A change in the quantity demanded arises from a change in the own price of a good. This is graphed as a movement along the demand curve. All other influences cause a shift in the curve, or a change in demand.

5. Income changes can cause the demand for a good to increase or decrease. If the good in question is "normal," an income increase (decrease) will cause the demand for the good to rise (fall). If the good is "inferior," an income increase will lower (increase) the demand for the good.

6. If the price of a substitute rises (falls), then the demand for the good in question will rise (fall). On the other hand, if the price of a complement rises (falls), the demand for the good in question will fall (rise).

Section 2.

1. The early freeze will decrease the supply of coffee, putting upward pressure on the price.

2. A decline in the market rate of interest will make credit less expensive. This will increase the number of persons willing and able to afford a car, resulting in an increase in the demand for cars. The increase in the demand for cars will increase the price and quantity supplied.

3. If the price were $3 per loaf or greater it would not be necessary for the government to buy any bread because all would be purchased by private buyers in the market.
4. Equilibrium price = $0.60/ pack; Equilibrium quantity at 140 million packs per month.

5. Equilibrium price = $0.40/dozen; Equilibrium quantity at 90 million packs per month.

6. Equilibrium price = $0.40/dozen; Equilibrium quantity at 140 million packs per month.

7. Equilibrium price = $0.70/dozen; Equilibrium quantity at 80 million packs per month.