

PRACTICE EXERCISES FOR CHAPTER 3

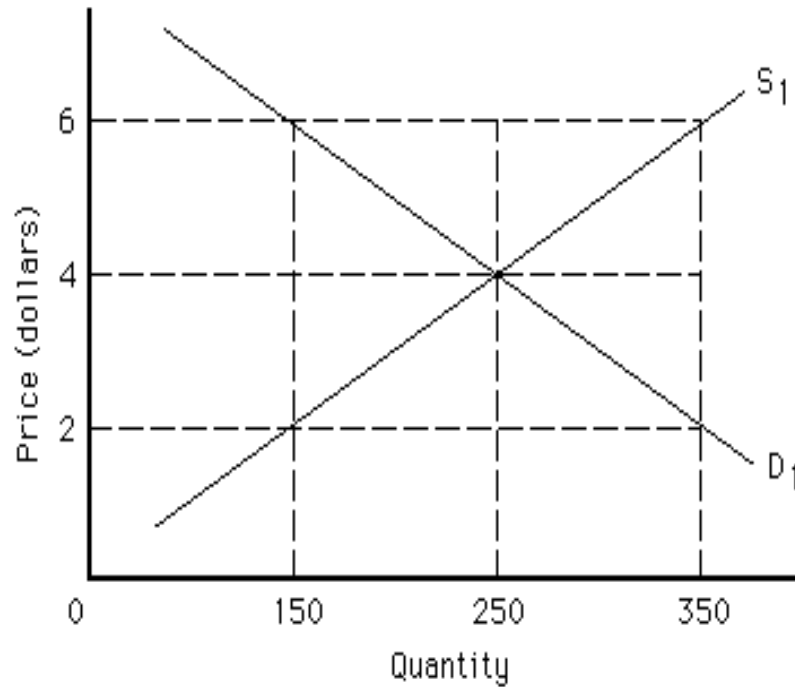
The exercises below are designed to facilitate your understanding of the mathematical and graphical concepts relevant to Chapter 3. Use your lecture notes and textbook to complete the problems and THEN “grade” yourself using my solutions, which are provided on the last few pages of this packet. **Remember, completing this exercise set is only a PART of the exam preparation process in this course!**

Use this table reflecting the market for CORN to answer questions 1 – 6 below.

Bushels demanded Per month	Price per Bushel	Bushels supplied Per month
45	\$5	77
50	\$4	73
56	\$3	68
61	\$2	61
67	\$1	57

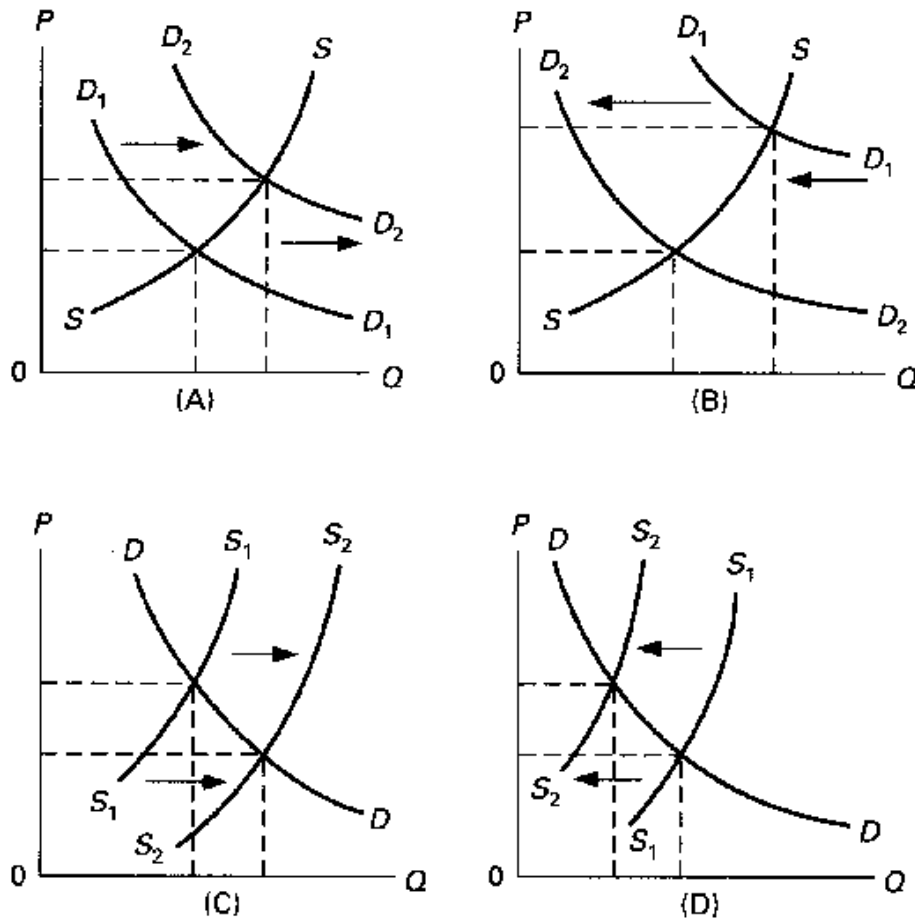
1. What is the equilibrium price (P^*) of a bushel of corn?
2. What is the equilibrium quantity (Q^*) of corn bushels exchanged?
3. If the price of a bushel of corn was \$4, would there be a surplus or shortage of corn?
4. Of how many bushels?
5. If the price of a bushel of corn was \$1, would there be a surplus or shortage of corn?
6. Of how many bushels?

Use this graph of the market for frozen dinners to answer the question 7 – 12 below.



7. What is the equilibrium price (P^*) of frozen dinners?
8. What is the equilibrium quantity (Q^*) of frozen dinners exchanged?
9. If the price of a frozen dinner was \$2, would there be a surplus or shortage of frozen dinners?
10. Of how many units?
11. If the price of a frozen dinner was \$6, would there be a surplus or shortage of frozen dinners?
12. Of how many units?

Select the panel that best illustrates the change that will occur due to each of the events described in the questions below.



13. Which of the diagrams illustrates the impact on the market for Depends Undergarments (you know, adult diapers) as the Baby Boom generation begins to age?

14. Which of the diagrams illustrates the impact on the market for fur coats when many consumers become unemployed due to our current recession?

15. Which of the diagrams illustrates the impact on the market for new passenger automobiles when gasoline prices increase to \$4.20 per gallon?

16. Which of the diagrams illustrates the impact on the market for jelly when the price of strawberries decreases?

17. Which of the diagrams illustrates the impact TODAY on the market for waffles when consumers learn that a sale on waffles will begin next month?

18. Which of the diagrams illustrates the impact on the market for orange juice of a new study by the American Medical Association claiming that drinking two glasses per day reduces your chance of heart disease by 30%?

19. Which of the diagrams illustrates the impact on the market for chicken when America experiences a “mad cow” disease scare?

20. Which of the diagrams illustrates the impact on the market for beef when America experiences a “mad cow” disease scare?

21. Which of the diagrams illustrates the impact today on the market for oil when oil producers expect lower oil (by the barrel) prices in the future?

22. Which of the diagrams illustrates the impact on the market for wheat when the government begins to provide larger subsidies to American wheat farmers?

23. Which of the diagrams illustrates the impact today on the market for bath towels when consumers are informed that the \$2.99 sale on bath towels will end next week?

24. Which of the diagrams illustrates the impact on the market for foreign cars when the US government places large taxes on foreign car producers?

25. Which of the diagrams illustrates the impact on the market for pizza if the price of cheese increases?

26. Which of the diagrams illustrates the impact on the market for new homes if the construction workers threaten to strike for higher wages?

27. Which of the diagrams illustrates the impact on the market for beer if the federal government raises the legal drinking age from 21 to 25?

28. Which of the diagrams illustrates the impact on the market for eggs if the price of chickens decreases?
29. Which of the diagrams illustrates the impact on the market for HDTVs when consumers receive larger income tax refund checks?
30. Which of the diagrams illustrates the impact on the market for pizza delivery when all phone operators have computers to store and retrieve customer information?
31. Which of the diagrams illustrates the impact on the market for tortilla chips when the price of salsa increases?
32. Which of the diagrams illustrates the impact on the market for tomatoes TODAY when tomato farmers expect higher tomato prices in the future?
33. Which of the diagrams illustrates the impact on the market for soccer balls when a news report claims that children who regularly play sports are three times less likely to do jail time later in life?
34. Which of the diagrams illustrates the impact on the market for Coke when the price of Pepsi increases?
35. Which of the diagrams illustrates the impact on the market for cookies when the profitability of producing brownies increases?
36. Which of the diagrams illustrates the impact on the market for candy when the price of a movie theater ticket decreases?

MY SOLUTIONS

(1) \$2

(2) 61 bushels

(3) at \$4, there will be a surplus

(4) $Q_s - Q_d = 73 - 50 = 23$ bushel surplus

(5) at \$1, there will be a shortage

(6) $Q_d - Q_s = 67 - 57 = 10$ bushel shortage

(7) \$4

(8) 250 units

(9) at \$2, there will be a shortage

(10) $Q_d - Q_s = 350 - 150 = 200$ unit shortage

(11) at \$6, there will be a surplus

(12) $Q_s - Q_d = 350 - 150 = 200$ unit surplus

(13) Panel A: The aging of the Baby Boomers will change their preferences for certain goods, and will increase the demand for Depends Undergarments.

(14) Panel B: When consumers become unemployed, they lose either all or most of their income and their demand for many goods and services will decrease.

(15) Panel B: An increase in the price of gasoline (a complementary good) will cause people to purchase fewer gallons of gasoline AND be less willing and able to purchase new passenger automobiles, causing a decrease in demand for passenger automobiles.

(16) Panel C: A decrease in the price of strawberries, a resource used in producing jelly, will reduce the cost for firms to produce jelly and therefore increase the supply of jelly.

(17) Panel B: If consumers believe that waffles will be cheaper next month, they will postpone their purchases now, so the demand for waffles TODAY will decrease.

(18) Panel A: Such a news report is likely to change consumer preferences in favor of orange juice, so the demand for it will increase.

(19) Panel A: When there's a mad cow scare, consumer preferences change in favor of a substitute product, like chicken. Thus, the demand for chicken will increase.

(20) Panel B: Mad cow disease will change consumer preferences unfavorably toward beef, and the demand for it will decrease.

(21) Panel C: If oil producers expect the price of their product to be lower in the future, then they have the incentive to get as much of their product as possible in the market today. Thus, based on this belief, the supply of oil TODAY will increase.

(22) Panel C: Larger government subsidies will reduce the cost to farmers for producing wheat, and the supply of wheat will increase as a result.

(23) Panel A: A belief of higher future prices will provide consumers with the incentive to run out and purchase today. The demand TODAY for bath towels will increase.

(24) Panel D: An increase in the taxes placed on producers will increase the cost of production and result in a decrease in supply of foreign cars in the US.

(25) Panel D: An increase in the price of cheese, a resource used in producing pizza, will increase the cost to firms for producing pizza, and decrease its supply.

(26) Panel D: An increase the workers' wages is an increase in the price of a resourced used in production. Firms will respond to this increased cost by reducing the supply of their product.

(NOTE: If workers strike, there's less labor available to produce products, so supply decreases. If workers strike, eventually an agreement will be reached that will like give them somewhat higher wages than before, and the above described process applies. If firms agree to pay higher wages to them without a strike, it does as described above.)

(27) Panel B: A decrease in the number of legal consumers in a market will decrease the demand for beer.

(28) Panel C: A decrease in the price of a resource used in production will make production less costly for firms. They will respond by increasing their supply of the product.

(29) Panel A: Larger tax refund checks will increase the disposable income of consumers and the demand for HDTVs will increase.

(30) Panel C: Computerization will improve the productivity of workers and allow for an increased supply of pizza.

(31) Panel B: An increase in the price of a complement will reduce the demand for tortilla chips.

(32) Panel D: If farmers expect higher future prices, they will withhold much of their product from the market now, causing TODAY's supply of tomatoes to decrease.

(33) Panel A: Such a news report is likely to change parental preferences favorably toward soccer and increase the demand for soccer balls.

(34) Panel A: An increase in the price of a substitute good will increase the demand for Coke products.

(35) Panel D: An increase in the profitability of a production alternative will reduce the supply of cookies.

(36) Panel A: A decrease in the price of a complement will increase the demand for candy at the movie theater.