











3. For each product highlighted in italics, sketch a graph (without numbers on the axes) showing the change in either demand or supply. Explain your answers.

- a. Medical researchers discover that consumption of *blueberries* reduces the risk of cancer. *tastes & preferences* 
- b. New automated equipment is introduced in the production of *silicon chips*. *prod. costs* 
- c. A significant rise in the price of VCRs affects the market for *videotapes*. *complementary* 
- d. Higher prices for grazing land have an impact on the production of *wool*. *prod. costs* 
- e. An influx of new residents into a small town influences *housing* purchases. *income* 
- f. A fall in average consumer incomes affects purchases of *bologna*. *income* 
- g. A drop in the price of laptop computers influences the consumption of *desktop computers*. *substitutes* 
- h. Unusually cold weather in Central America harms the *coffee* harvest. *env. ill.* 
- i. A rise in the price of wheat affects the production of *barley*. *related outputs* 
- j. A widespread expectation of higher future incomes affects sales of *automobiles*. *income* 



4. Identify one possible cause for each event below:

- a. The demand for electric-powered cars decreases. *substitutes / future exp. prices ↓ / tastes & preferences*
- b. The quantity supplied of milk decreases. *↓ price*
- c. The supply of Atlantic cod increases. *pol. factors / fish farm tech. innovation / govt int. / income*
- d. The quantity demanded of CDs increases. *↓ price*

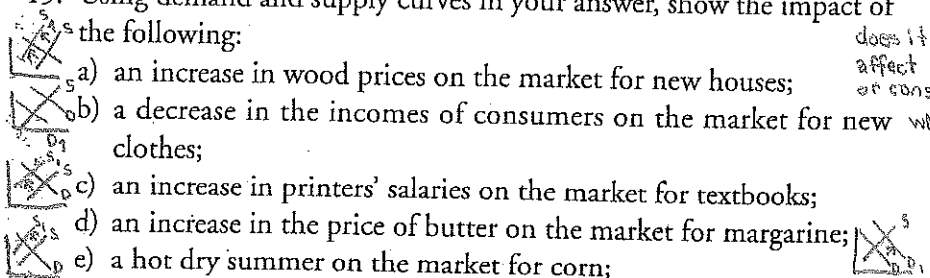
9. (Policy Discussion Question)

In an attempt to curb the use of illegal drugs, such as marijuana or cocaine, or the use of harmful legal substances, such as tobacco, governments can use two basic options: decreasing demand through public education and decreasing supply through legal restrictions or taxes.

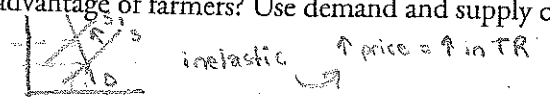
a. With the aid of two graphs, explain how each type of policy reduces quantity in affected markets. What is the result on the price as seen by consumers for each type of policy?

- b. Which of these two types of policies is likely to have more long-term success? Why?
- Public Edu.*  *S > D surplus*
- Legal Rest./Taxes*  *D > S shortage*
- taxes / red. ↑ production costs*
- 2 combine together to avoid P ↑ or ↓*
- 2 thro' demand side more fruitful in long term --*

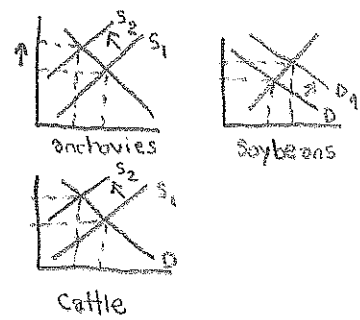
13. What would happen to the price of a product if there were a simultaneous increase in both the demand and the supply? Explain, using a graph in your answer. *depends of whether a greater ↑ in S or D*
14. Why do sellers lower the price when there is a surplus? Why do buyers bid up the price when there is a shortage?
15. Using demand and supply curves in your answer, show the impact of the following:
- a) an increase in wood prices on the market for new houses;
 - b) a decrease in the incomes of consumers on the market for new clothes;
 - c) an increase in printers' salaries on the market for textbooks;
 - d) an increase in the price of butter on the market for margarine;
 - e) a hot dry summer on the market for corn;
 - f) a new advertising campaign by the Turkey Marketing Board on the market for turkeys; *↳ tastes/preferences (advertising)*
 - g) an increase in the price of new cars on the market for used cars; and
 - h) an increase in interest rates on the market for new cars.
16. In the 1970s a severe frost hit Brazil and damaged much of the country's coffee crop. Since Brazil is one of the world's leading coffee producers, what impact might this frost have had on world coffee prices? Use demand and supply curves in your answer.
17. Using your knowledge of demand and supply, explain why parking garages in the downtown core of Canadian cities have several levels, whereas in the suburbs parking lots tend to be only one level. *location/location/location demand for land in core in higher demand thus price ↑*
18. The disappearance of anchovies off the coast of Peru in 1972 caused a scramble for protein-rich substitutes, notably soybeans. Because soybeans are used in cattle feed, higher soybean prices eventually were translated into higher cattle prices. Use demand and supply diagrams to illustrate what happened in the anchovy, soybean, and cattle markets. Indicate which curves shifted in each instance and show the effects on the equilibrium price and quantity in each market.
19. In July 1993, an explosion destroyed the Japanese plant that was the world's largest supplier of memory-chip resin. The day before the explosion, memory chips for computers could be purchased for \$40. Shortly after the explosion, the price had increased to \$90. Using demand and supply curves, show the impact of this explosion on the memory-chip market as well as on the market for computers.
20. If the demand for many farm products is inelastic, why would a bad crop be to the advantage of farmers? Use demand and supply curves in your answer. *inelastic ↑ price = ↑ in TR*



21. In the discussion of price elasticity of demand, it was shown that changes in total revenue could shed some more light on the question of demand elasticity. Why will a review of total revenue, similar to that used for demand, not work with the concept of elasticity of supply? *P D 7 13 17 119 TR 5 20 100 inelastic*
22. For each of the following goods and services, state whether the demand would be elastic or inelastic:
- a) postal service *inel. - few sub.*
 - b) soft drinks *el. - many sub.*
 - c) theatre tickets *el. - luxury*
 - d) textbooks *inel. - no sub.*
 - e) houses *inel. - necessity*
 - f) home computers *el. - luxury*
23. Fire destroyed one-half of the trees on a certain tract of land in New Brunswick. The remaining lumber was worth more than the value of the trees before the fire. What does this say about the elasticity of demand for lumber? *value = price x q. raised prices enough to increase the value - the demand inelastic*
24. In order to reduce the cost of medicare to the public, it has been suggested that individuals pay one dollar for each visit to the doctor. Discuss the impact of this user fee on the demand for medical services. Refer to the price elasticity of demand in your answer. *price = √ QTY dem. degree depends on elasticity*
25. The cost of mailing a letter is constantly increasing. Postage is now subject to the GST. In your opinion, is the demand for stamps elastic or inelastic? Explain. *% of substitutes necessity % of income spent on stamps*
26. In March 1990, McDonald's Restaurants announced a reduction of up to 30 percent in the price of hamburgers and other items. A McDonald's spokesperson stated that although the lower prices will pinch profits, the increase in customers will ultimately compensate for the decline in earnings. What is McDonald's view of the price elasticity of demand for its food? Do you think that this view is correct? Explain. *elastic recession - price sensitivity in poor economic times #substitutes times*
27. A study on the advertising elasticity of demand for eggs for the period 1985 to 1997 determined the value to be 0.034. Interpret this value. *changes in advert. expenditure does not bring about large changes/increases in qty. demanded*
28. Provide examples of products with the following characteristics:
- a) positive cross-elasticities (two products); and, *- occur for substitutes and complementary*
 - b) negative income elasticity. *↑ in income - ↓ in demand*
29. Scalpers hawk their tickets outside theatres, sporting events, and concerts. Using demand and supply curves, discuss the market scalpers participate in. Address the following issues in your answer:
- The price elasticity of demand. *popular show = inelastic*
 - The price elasticity of supply. *fixed tickets so el. of supply PERFECTLY INELASTIC*
 - What happens to the price of concert tickets as the start of the concert nears? *many unsold tickets - price ↓ just prior*
 - Do scalpers exist only in markets where the supply is limited? Explain. *mkt. w. FIXED SUPPLY - as qty. supp. would ↑ in accordance w. ↑ price*



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