

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. 21

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: 22

a) an increase in wood prices on the market for new houses; does it initially affect producer or consumer?

b) a decrease in the incomes of consumers on the market for new clothes; what factor

c) an increase in printers' salaries on the market for textbooks; 23

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; 24

↳ 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. 25

Supply ↓ Price ↑

/ location / location / location

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. 26.

demand for land in core in higher demand than 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. 27.

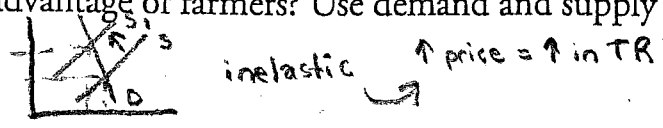
←

28.

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. 29.

←

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.



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	17	119
5	20	100

↑ TR ↑
inelastic

For each of the following goods and services, state whether the demand would be elastic or inelastic:

- a) postal service *inel. - few sub.* d) textbooks *inel. - no sub.*
 b) soft drinks *el. - many sub.* e) houses *inel. - necessity*
 c) theatre tickets *el. - luxury* f) home computers *el. - luxury*

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 \times qty
if reduction in qty. raised prices enough to increase the value - then demand inelastic

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

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

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

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. Provide examples of products with the following characteristics:

changes in advert. expenditure does not bring about large changes/increases in qty. demanded

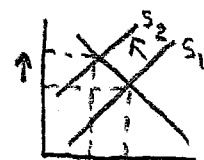
- a) positive cross-elasticities (two products); and, - occur for substitutes and complementary
 b) negative income elasticity. ↑ in income - ↓ in demand

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. MKTS. w/ FIXED SUPPLY - as qty. supp. would ↑ in accordance w/ ↑ price

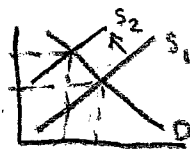
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anchovies

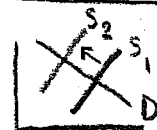


soybeans

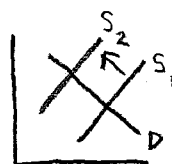


cattle

19

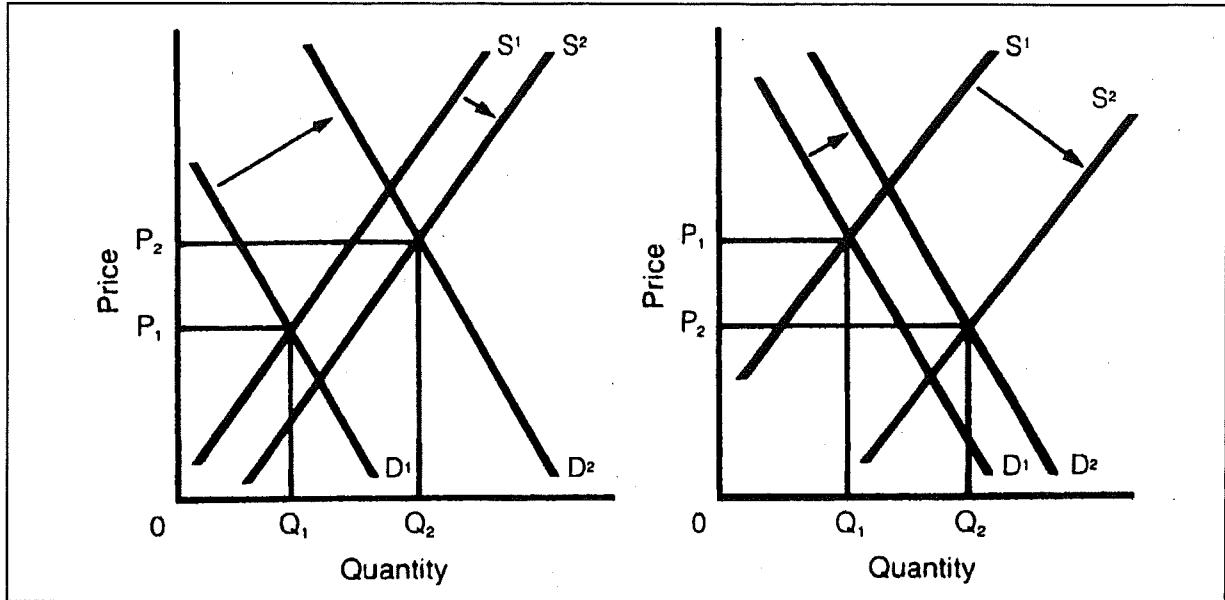


memory chips



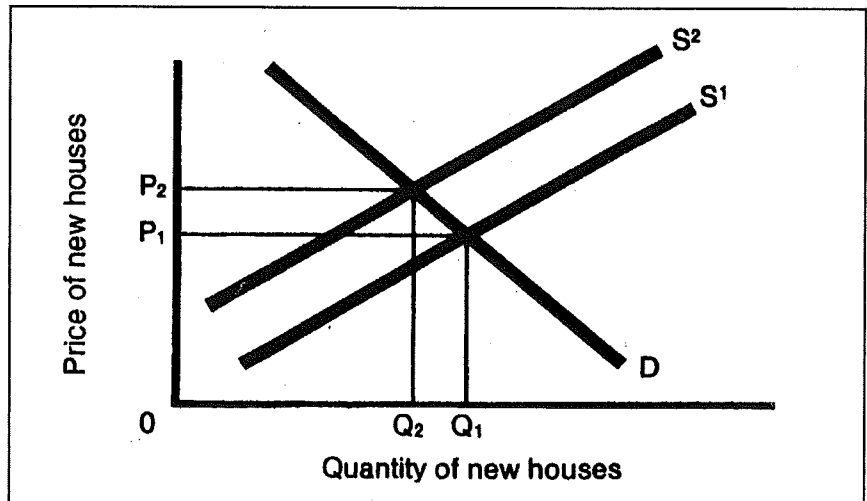
computers

- 13 The effect on the price is difficult to determine. If there is a greater increase in demand than in supply, the price will rise. If there is a greater increase in supply than in demand, the price will fall.

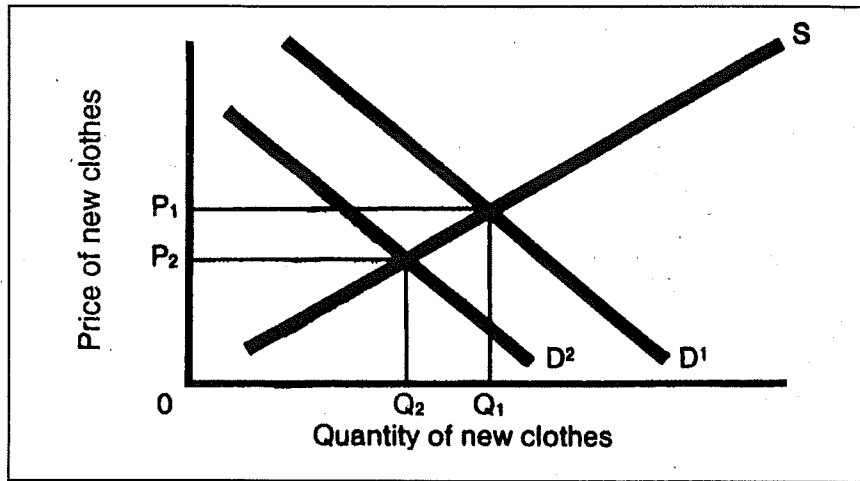


- 14 If there is a surplus, consumers will only buy more at a lower price since they are not buying the entire amount available at this price. When there is a shortage, someone will be willing to pay more in order to acquire the product.

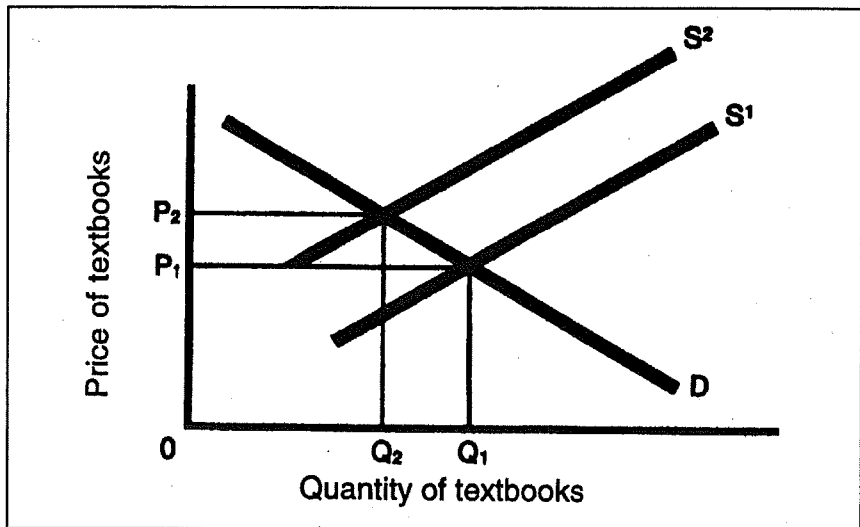
- 15 a



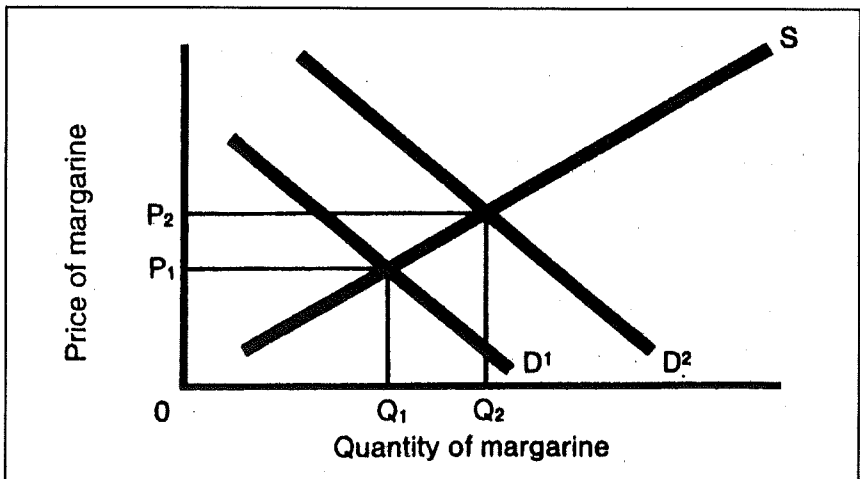
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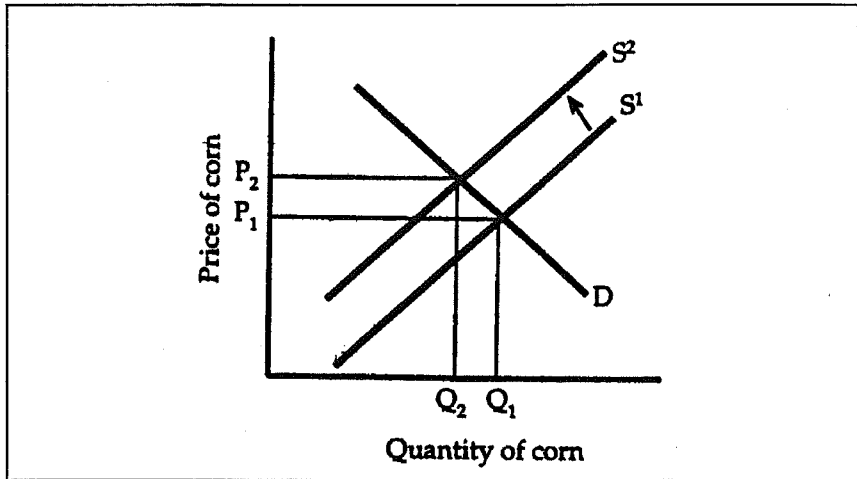
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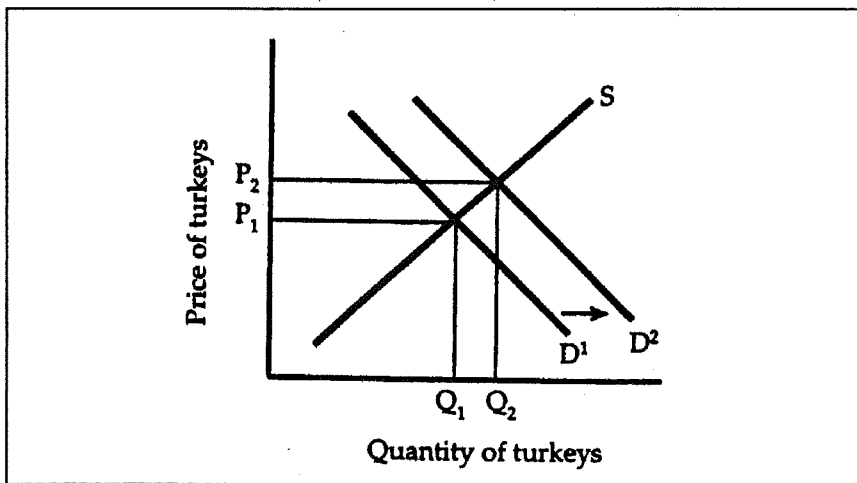
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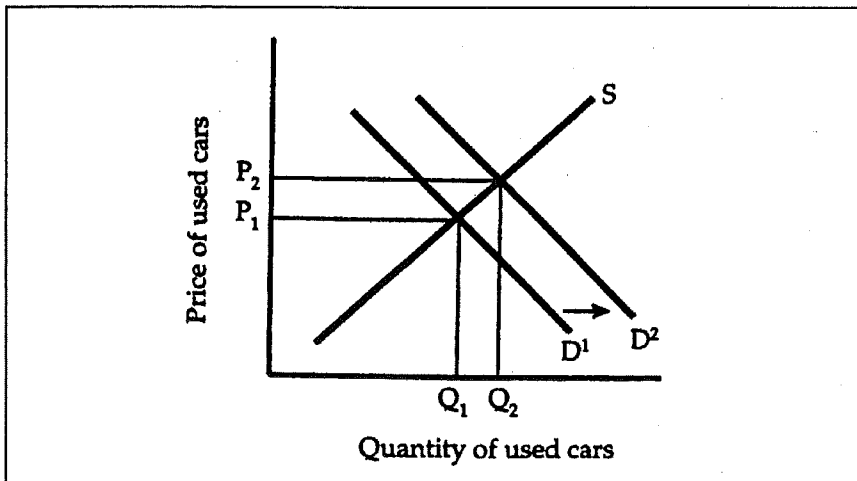
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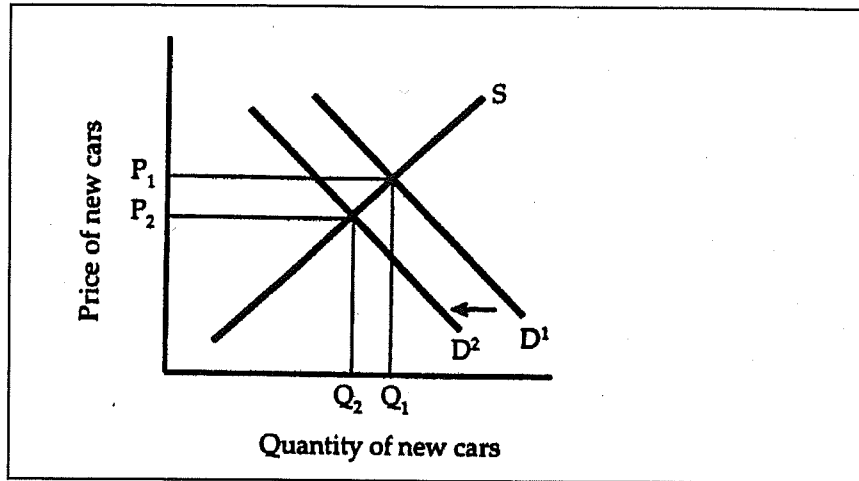
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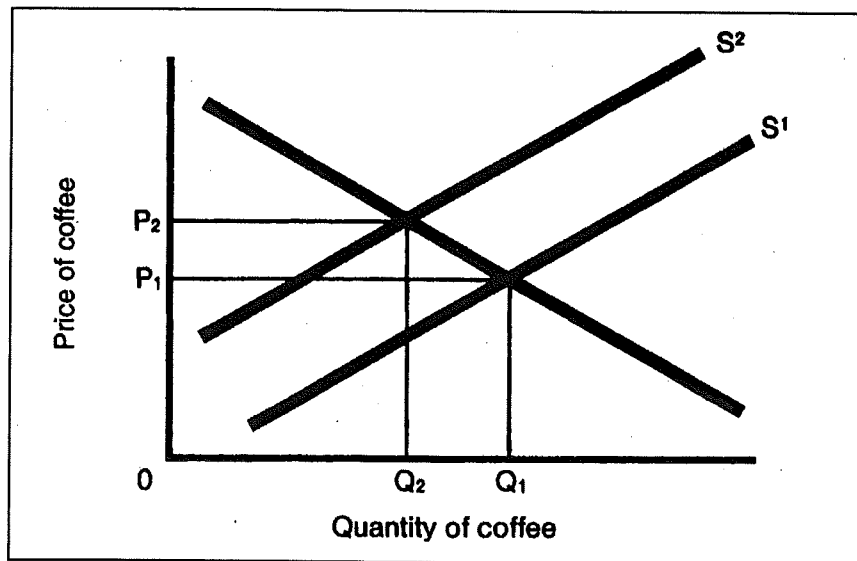
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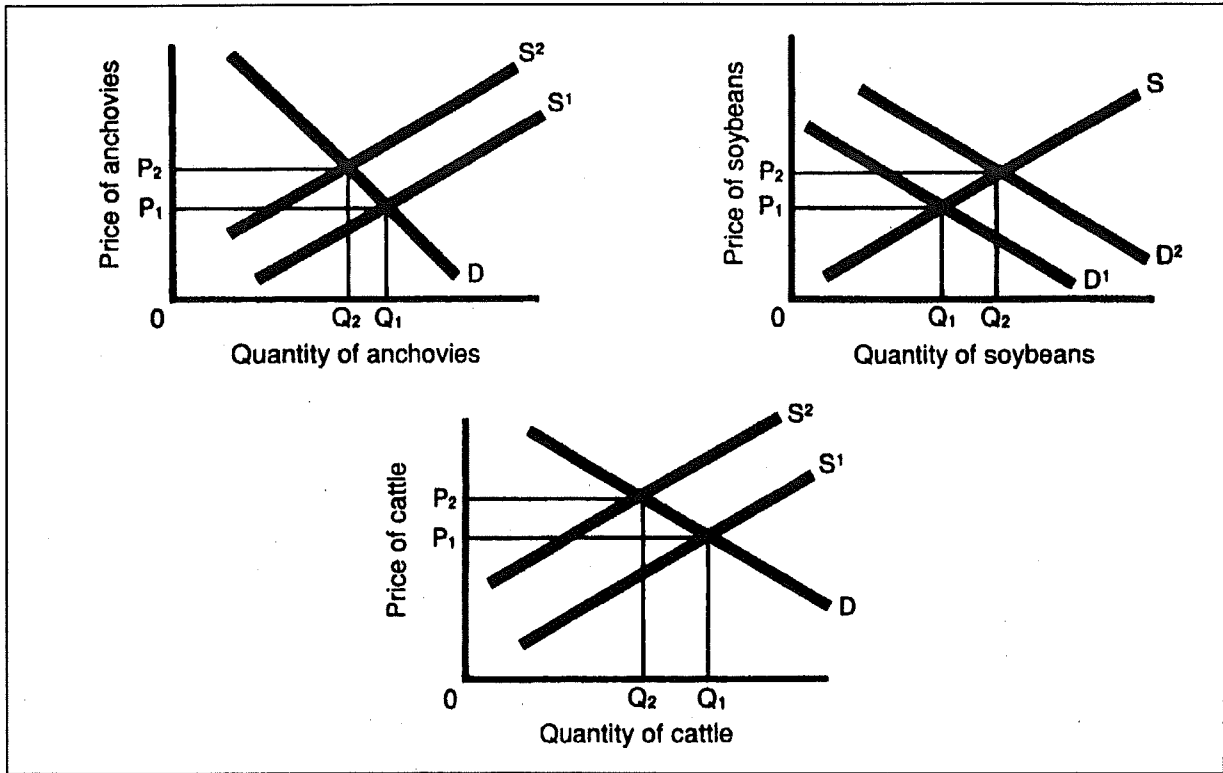


- 16 The supply of coffee is reduced, resulting in an increase in the price.

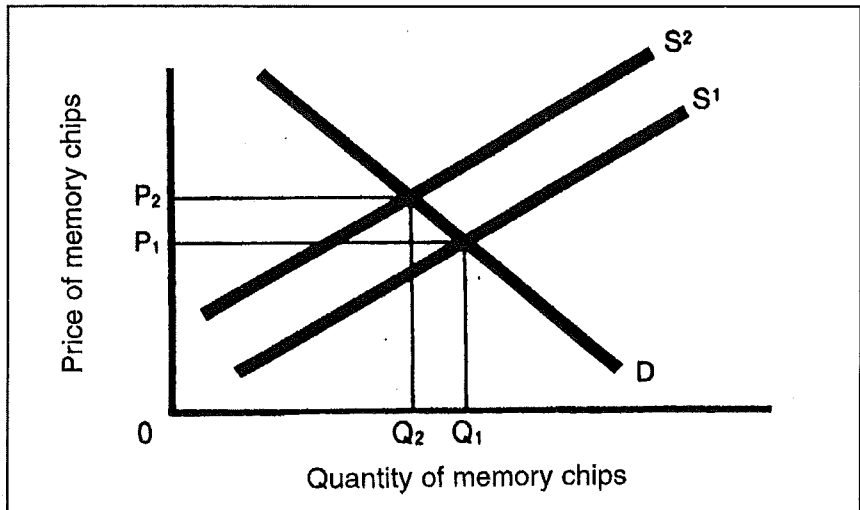


- 17 The demand for land in the downtown core is greater than in the suburbs. Therefore, the price of land is higher in the downtown core because the supply of land is limited downtown. Parking garages downtown have several levels in order to make better use of the high-priced land.

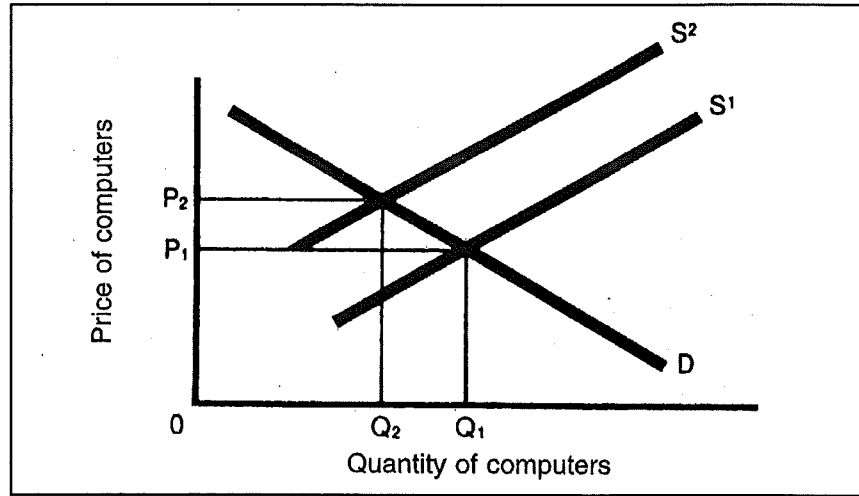
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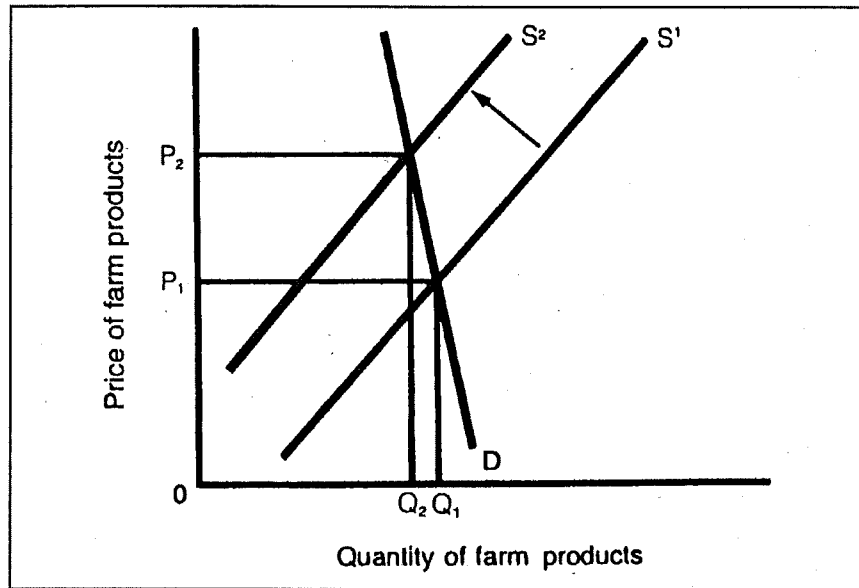
19 a



b



- 20 A bad crop would cause the supply of agricultural products to decrease, forcing up the price. When the demand is inelastic, an increase in the price causes an increase in total revenue. Therefore, a bad crop will increase farm incomes.



- 21 A supply curve indicates a positive relationship between the price and the quantity supplied. If the price increases, the quantity supplied increases, and vice versa. Any increase in price will lead to an increase in the total revenue and any decrease in price will lead to a decrease in total revenue. It is only possible to use the total-revenue approach to calculate elasticity where there is an inverse relationship (e.g., in the case of a demand curve).

- 22
- | | | | |
|---|----------------------------|---|---------------------------|
| a | inelastic; few substitutes | d | inelastic; no substitutes |
| b | elastic; many substitutes | e | inelastic; necessity |
| c | elastic; luxury | f | elastic; luxury |

- 23 The value of lumber is determined by multiplying the price by the quantity. If a reduction in quantity raised prices enough to increase the value, then the demand is inelastic.
- 24 As the price of a visit to the doctor increases, the quantity demanded decreases. The degree to which quantity, demanded will decrease depends on the elasticity of demand in this price range for visits to the doctor.
- 25 This question asks for the student's opinion on the elasticity of demand for stamps. The student's answer should relate to the number of substitutes for mailing a letter, the necessity, of letters, and the percentage of a person's or a company's budget spent on postage.
- 26 McDonald's believes the price of elasticity of demand to be elastic. The prices were lowered in a recession and consumers are more likely to be price sensitive in poor economic times. Also, there are many substitutes for McDonald's food indicating that the demand is likely to be elastic.
- 27 The advertising elasticity of demand measures the proportionate change in quantity demanded divided by the proportionate change in advertising expenditure. A value of 0.034 indicates that changes in advertising expenditure does not bring about large increases in quantity demanded.
- 28 a Positive cross elasticities occur for substitutes such as Coke and Pepsi, brands of chocolate bars, used cars and new cars, and so on.
b Negative income elasticities occur when increases in income are accompanied by decreases in quantity demanded. Products such as beer, flour, and margarine have negative income elasticities.
- 29 Is the price of the ticket an important factor in the decision to buy? For a very popular show, the price elasticity of demand may be inelastic. The quantity of tickets is fixed, so the price elasticity of supply is perfectly inelastic. If the concert or show is very popular, the price may go up just prior to the start of the concert. However, if there are many unsold tickets, the price may decrease just prior to the start of the show. Scalpers exist in markets with a fixed supply, otherwise the quantity supplied would increase in accordance with the increase in price.