Homework Assignment #1: Supply and Demand

Name:

For each problem draw a supply and demand graph of the initial conditions. Label the equilibrium P* and Q*. Then answer the question, shift the curves as needed, and relabel the new equilibrium as P** and Q**. Unless otherwise stated, assume that the ceteris paribus assumption is true.

1. A new technological advance in mining iron (an input for steel) has just been developed. What will happen to the market for steel?

2. Suppose the World Health Organization released a new study demonstrating that eating Tofu increases your risk of having a stroke. What will happen in the Tofu market?

3. There has been a late frost in Florida that destroyed a significant number of oranges. What effect will this have on the supply and demand for oranges? What about for apples (remember to use supply and demand graphs)?

4. The price of gasoline has risen 10% from a year ago, leading more people to demand motorcycles. What impact will the increased demand for motorcycles have on the market for cars?

5. There has been a bumper crop of peanuts this year. What do you expect to happen to the price of jelly? Explicitly state the steps in logic you use to come to your conclusion and remember to draw the supply and demand graphs.