

Economics: supply and demand

[Economics](#)



Managerial Economics

Fatima Abdul-Roof Exercises # 1 Answer the following questions. Explain your answer. An answer with no explanation receives no credit.

1. David Smith must decide whether to start a business renting beach umbrellas at an ocean resort during June, July, and August of next summer. He believes that he can rent each umbrella to vacationers at \$5 a day, and he intends to lease 50 umbrellas for the three-month period for \$3,000. To operate this business, he does not have to hire anyone (but himself), and he has no expenses other than the leasing costs and a fee of \$3,000 per month to rent the location of the business. David is a college student, and if he did not operate this business, he could earn \$4,000 for the three-month period doing construction work.

- A. If there are 80 days during the summer when beach umbrellas are demanded, and if David rents all 50 umbrellas on each of these days, what will be his accounting profit for the summer?
- B. What will be his economic profit for the summer?

2. If the demand curve for wheat in the United States in 2001 was $P = 12 - 4Q$, where P is the farm price of wheat (in dollars per bushel) and Q is the quantity demanded of wheat (in billions of bushels), and the supply curve for wheat in the United States at the same time was $P = -2.6 + SQ$, where SQ is the quantity supplied of wheat (in billions of bushels).

- A. What is the equilibrium price of wheat?
- B. What is the equilibrium quantity of wheat sold?

3. From November 2007 to March 2008, the price of gold increased from \$865 an ounce to over \$1, 000 per ounce. The increase in price had little to do with the increase in demand from the Jewelry industry but significant increase from investors who looked at gold as a safe haven to invest in.

- A. Was the increase in the price of gold due to a shift in the demand curve for gold, a shift in the supply curve for gold, or both?
- B. Did the increase in the price of gold affect the supply curve for gold Jewelry? If so, how?

Reference

1. Bruce Allen, K. Weight, N. Doherty, and E. Mansfield (2009).
2. Managerial Economics: Theory, Application, and Cases. Seventh Edition. W. W. Norton.