

# Supply increases price

[Literature](#), [Russian Literature](#)



## Homework Week 2

- 3. What effect will each of the following have on the demand for small automobiles such as the Mini Cooper and Smart car?
  - a. Small automobiles become more fashionable This will increase the demand in small automobiles
  - b. The price of large automobiles rises (with the price of small autos remaining the same) The demand will increase
  - c. Income declines and small autos are an inferior good. The demand will increase
  - d. Consumers anticipate that the price of small autos will greatly come down in the near future. The demand will decrease
  - e. The price of gasoline substantially drops This statement is unclear. You can't really tell if the demand for small automobiles will increase or decrease just because the gas prices drop substantially.
  
- 6. What effect will each of the following have on the supply of auto tires?
  - a. A technological advance in the methods of producing tires. Supply will increase
  - b. A decline in the number of firms in the tire industry. Supply will decrease
  - c. An increase in the price of rubber used in the production of tires. Supply will decrease
  - d. The expectation that the equilibrium price of auto tires will be lower in the future than currently. Supply will increase

- e. A decline in the price of large tires used for semi-trucks and earth hauling rigs (with no change in the price of auto tires). Supply will increase
- f. The levying of a per-unit tax in each auto tire sold. Supply will increase
- g. The granting of a 50-cent-per-unit subsidy for each auto tire produced. Supply will increase

9. How will each of the following changes in demand and/or supply affect equilibrium price and equilibrium quantity in a competitive market; that is, do price and quantity rise, fall or remain unchanged, or are the answers indeterminate because they depend on the magnitudes of the shifts? Use supply and demand diagrams to verify your answers.

- a. Supply decreases and demand is constant Price goes up and quantity goes down
- b. Demand decreases and supply is constant Price goes down and quantity also goes down
- c. Supply increases and demand is constant Price goes down and quantity up
- d. Demand increases and supply increases Price is indeterminate and the quantity goes up
- e. Demand increases and supply is constant Price goes up and quantity up
- f. Supply increases and demand decreases Price goes down and the quantity is indeterminate

- g. Demand increases and supply decreases Price goes up and the quantity is indeterminate
- h. Demand decreases and supply decreases Price is indeterminate and the quantity goes down

11. Critically evaluate: “ In comparing the two equilibrium positions in figure 3. 7a, I see a larger amount is actually purchased at a higher price. This refutes the law of demand” The increase in demand from D1 to D2 increases both equilibrium price and equilibrium quantity. On the second equilibrium we can see that demand has increase causing buyers to buy more at higher prices than the first equilibrium.