

Supply and demand and new housing

[Life](#)



Introduction

What is the opportunity cost of producing the first table? $(33-30)/1= 3$ What is the opportunity cost of producing the third table? $(26-21)/1= 5$ What is the opportunity cost of producing the sixth table? $8-0)/1= 8$ Draw the production-possibilities curve for chairs and tables on a graph, placing tables on the vertical axis and chairs on the horizontal axis. If the economy achieved greater efficiency in the production of tables, how would the production -possibilities curve change? If a more efficient method of producing chairs were developed, how would the curve change? Suppose more economic resources (labour, materials, and capital) became available. How would the curve change?

Q2

The following table describes the production possibilities of two cities. Without trade, what is the price of blue sweaters (in terms of red sweaters) in Montreal? What is the price in Toronto? Which city has an absolute advantage in the production of each colour of sweater? Which city has a comparative advantage in the production of each colour of sweater? If the cities trade with each other, which colour of sweater will each export? (d) What is the range of prices at which trade can occur?

Q3

10 points) Canada has a mixed economic system, in which both marketplace and government play a role. For each of the following situation, explain why you think that it would be best dealt with by the market, or by government action. There are too many restaurants in a town, and several are

losing money. The gap between the rich and the poor is very wide, and the poorest citizens are unable to afford even the bare necessities of life.

The largest supermarket chain in the country is planning to buy the second-largest chain, which would give it a near-monopoly in many communities. A trend toward healthier eating has driven the price of chicken up so sharply that many consumers are complaining to the government about the increased prices. Several manufacturers are cutting costs by dumping waste into a local river.

Q4

A customer is about to buy 4 shirts at \$20 each. When she finds that they have just gone on sale for \$15, she buys 5 shirts instead. Is her demand for these shirts elastic or inelastic? Explain the reason for your answer.

Q5

From 1997 to 2001, the price of coffee on world markets fell from \$1.60 U. S. per pound to \$0.6 U. S. per pound--- a decrease of 65 percent. What is the most logical explanation for such a decrease in price? What explains the large size of the price decrease?

Draw a graph representing the factors in (a) and (b). Q6. (10 points) Assume the demand schedule for ice-cream cones can be represented by the equation $QD = 160 - 3P$, where QD is the quantity demanded and P is the price. The supply schedule can be represented by $QS = 140 + 7P$, where QS is the quantity supplied. Calculate the equilibrium price and quantity in the market for ice-cream cones. The Canadian Association of Ice-Cream Eaters complains that the equilibrium price calculated in part (a) is too high, and

their members cannot eat enough ice-cream cones at this price. They lobby the government to impose a price ceiling on ice-cream cones of \$1. What is the quantity demanded at this price? The quantity supplied? Is there a shortage or surplus of ice cream? How big is it? What if a \$2.50 price ceiling was imposed instead? Say instead that the Canadian Association of Ice-Cream Makers lobbies the government, arguing that the equilibrium price is too low for their members to make a decent living.

They want a price floor of \$3 per cone. What is the quantity demanded at this price? The quantity supplied? Is there a shortage or a surplus of ice cream? What is it? What if a price floor of \$1.50 was imposed instead?

Q7

One of the key prices Statistics Canada monitors is the price of new housing. The statistics do not show the actual price of housing in dollars, but rather an “index” of prices that is set at 100.0 in 2007, with the index in each year after 2007 showing how much prices have increased since 2007.

To see how the price of new housing has changed over the past 5 years, visit the Statistics Canada website at <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/manuf12-eng.htm>, and search for New housing price index for Canada. Calculate the percentage increase in new housing prices each year over the past five years (2007-2011). What trend do you see in new housing prices for Canada (national average level), and is there any noticeable trend for the Metropolitan areas? What demand side or supply side factors might explain these?