

Supply and demand ii

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



DEMAND AND SUPPLY 11 By of the of the School Imagine you are the of a book who gets a royalty payment of 10% of the total receipts (the number sold multiplied by the price) from the sale of the book. You get a phone call from your publisher telling you they are increasing the price of your book from \$25 to \$30. Should you be happy about this? Why or why not? What assumptions are you making about the change in quantity demanded in your answer? What elements of a good, in this case the book, will determine whether your assumption is valid?

I will not be happy with the rise in prices as it may go a long way in lowering the demand of books. Quantity demanded for the book is lowered

2. Two of the most common products to offer coupons in the newspaper are breakfast cereals and household cleaners. What is it about those goods that lead their manufacturers to offer coupons?

Can you name any other products that frequently have coupons that fit this explanation? Why is it unusual to see coupons for products like a Harry Potter book?

The quantity demanded is lesser and as such coupon enables consumers demand more. Mobile phones a times too have coupons.

3. Why can you purchase a ticket to fly on the very same flight on the very same plane for less if you buy it a month in advance than if you buy it three days before?

The demand of a good (tickets) varies with time depending on the expectation of the consumers. As consumer if I expect the prices of the tickets will increase in future I will buy now in advance

4. Use the following table showing the relationship between quantity

demanded, quantity supplied, and price in the market for Movie Tickets to answer questions 3a-b:

Table 1 : Price, Quantity Demanded (Qd), Quantity Supplied (Qs) of Movie Tickets

P

Qd

Qs

£10

50

30

12

45

35

14

40

40

16

35

45

18

30

50

Draw the market supply and demand curves for Movie Tickets from the information provided in the table.

18

16

14 .

Price

12

10

30 35 40 45 50

Quantity

a. Refer to the table. The equilibrium P and Q of Movie Tickets are:

i. £10 and 50.

ii. £12 and 35.

iii. £40 and 14.

iv. £14 and 40.

iv

b. Refer to the table. If the demand curve for movie tickets shifted to the right such that 10 more tickets are demanded at every price, what is the new equilibrium price? Draw this on your graph above.

i. £12

ii. £14

iii. £16

iv. £18

ii

5. Use Figure 1 to answer questions 5a-d:

Figure 1: Tax on Sellers of Gadgets (in £s)

a. (Figure: Tax on Sellers of Gadgets) According to the figure, what is the amount of the tax that has been imposed on the sale of gadgets?

i. £0. 50

ii. £1. 00

iii. £1. 50

iv. £5. 50

ii

b. (Figure: Tax on Sellers of Gadgets) According to the figure, what is the tax revenue that the government collects from the tax on gadgets?

i. £350

ii. £450

iii. £175

iv. £550

i

c. (Figure: Tax on Sellers of Gadgets) According to the figure, what is the amount of the deadweight loss caused by the imposition of the tax on gadgets?

i. £100

ii. £1

iii. £0. 50

iv. £50

iv

d. (Figure: Tax on Sellers of Gadgets) According to the figure, what is the after tax price that sellers receive?

i. £5. 00

ii. £5. 50

iii. £4. 50

iv. £4. 00

ii

6. Use Figure 2 to answer questions 5a-d:

Figure 2: Demand and Supply with Subsidy

a. (Figure: Supply and Demand with Subsidy) Refer to the figure. Suppose a subsidy allows sellers to receive their product at the price of \$8 with a quantity of 400 units. What is the dollar amount of the subsidy per unit of the good?

v. \$1

vi. \$6

vii. \$2

viii. \$100

vii

b. (Figure: Supply and Demand with Subsidy) Refer to the figure. What is the total cost of the subsidy for taxpayers?

ix. \$400

x. \$800

xi. \$3, 200

xii. \$2, 400

x

7. True, False, or Uncertain: A starving farmer accepting a loan from a moneylender at a 25% interest rate is an example of mutually beneficial exchange. Give a one-sentence explanation of your answer.

True. The interest rate is so high but the farmer lacks alternative to fight his starvation hence the loan.

8. Suppose a farmer faces the following data:

Total Cost of Production

Marginal Cost of Production

Average Cost of Production

0

0

-

-

1

100

100

100

2

300

200

150

3

600

300

200

4

2000

1400

500

a. Complete the table.

b. What price would encourage him to produce 1 unit, 2 units, 3 units, and finally 4 units of output? What price would encourage him to produce no output?

Tc/q,

At 1 unit price is 100

At 2 units price is 150

At 3 units price is 200

At 4 units price is 500

0 output no price charge

c. Graph the farmer's corresponding supply curve.

500

400

p 200

100

0 1 2 3 4

Qs

d. True or False: In this example, supply increases when the price of soy increases.

Yes as supply increases prices of soy increases too.

9. Elasticity of Demand. In each of the cases below, we will be moving along a fixed demand curve – so think of supply increasing or decreasing while the demand curve is staying in the same place.

a. If the elasticity of demand for university textbooks is -0.1 , and the prices of textbooks increases by 20%, how much will the quantity demanded change, and in what direction?

Less quantity demanded negatively

b. If the elasticity of demand for spring break packages to Ibiza is -5 , and if you notice that this year in Ibiza the quantity of packages demanded increased by 10%, then what happened to the price of Ibiza vacation packages?

Prices rise responsively.

c. London real estate developers are building thousands of new student-friendly apartments close to the Strand campus. If you want to pay the lowest rent possible, should you hope that demand for apartments is elastic or inelastic?

Hope for elastic demand

d. The town council degrades that thousands of apartments close to the Strand campus are uninhabitable and must be torn down next semester. If you want to pay the lowest rent possible, should you hope that demand for apartments is elastic or inelastic?

Hope demand be elastic

10. Three supply curves are shown below. You may also think of them as marginal cost curves, or curves showing the cost at which additional quantities can be supplied.

a. Which one might best represent the supply of Rembrandt paintings?

Diagram 2 supply curve S2, any given supply of Rembrandt paintings are

never fixed since they can be created by artists. Hence the supply curve of these paints has the shape of upward

Sloping

b. Would your answer be the same if the words “ to U. S. museums and other American collectors” were added to the preceding question?

No as supply will now increase, the new curve will hence be S3

c. What can you say about the price elasticity of supply in each case?

S1- perfectly inelastic supply, S2- elastic supply, S3-elastic supply

d. Someone tells you that S2 and S3 both show the supply curve of rental housing in some area. How could those two curves both be supply curves for the same good?

Due to being located same place. Elasticity is similar in many ways

Bibliography

WESSELS, W. J. (2000). Economics. Hauppauge, NY, Barrons.