

# [Supply and demand and equilibrium price](https://assignbuster.com/supply-and-demand-and-equilibrium-price/)

[Economics](https://assignbuster.com/essay-subjects/economics/)

Briefly point out the faulty reasoning in each of the following situations:

a. You win a free, nontransferable ticket to a Sheryl Crow concert. Since the ticket is free and it will therefore cost you nothing to go, you decide to go to the concert.

b. You paid nonrefundable tuition of $3, 000 to take a 15-week course. Therefore, the opportunity cost of attending class each week is $3, 000 divided by 15, or $200.

c. You have purchased 5 premium apples for $1. 99 a pound, but when you get home, you discover they are mushy.

Since you paid top dollar for these apples, you decide you have to eat them.

Briefly explain why the following statements are either TRUE or FALSE:

a. Even though school dormitory rooms are rationed by lottery, these rooms are still affected by economic forces.

b. Because the U. S. postal service is a monopoly and Congress sets postal prices through legislation, market forces do not determine stamp prices.

c. New York City government auctions taxi medallions that give the right to transport passengers by taxi.

Because the government controls the number of medallions, market forces do not determine their price.

Indicate whether each of the following statements describes an increase in demand, decrease in demand, change in quantity demanded, increase in supply, decrease in supply, or change in quantity supplied in the given market.

a. Store-brand soup prices are cut, reducing sales of Campbell’s soup. Market: Campbell’s soup.

b. Coffee bean prices hit an 18-month low following a bountiful harvest. Market: coffee beans.

c. A summer heat wave leads to higher prices for bottled water. Market: bottled water.

d. Holiday clothing discounts boost clothing sales. Market: clothing.

e. Apple introduces a tinier and more powerful iPod model. Market: older iPod models.

f. The cost of pesticides increases, leading to a rise in the price of soy beans. Market: soy beans.

Given the following data for individuals, draw the market demand curve and market supply curve for CDs. Assume that these are the only individuals in the entire market.

a. What would be the equilibrium price and quantity in this market?

b. Which would there be—excess demand or excess supply—at a price of $8. 00? How much? What about at a price of $10. 00?

c. If the price of a CD was initially set at $9. 00 but the price was allowed to adjust, would the price rise or fall? Explain your answer.

State the effect of the following events on equilibrium price and quantity of the market given.

a. Beetle infestation decimates tobacco crop. Market: cigars.

b. The Organization for Petroleum Export Countries raises oil export quotas. Market: gasoline.

c. Digital image albums become the rage among households while improvedtechnologyreduces the cost of producing digital cameras. Market: digital cameras.

d. Hurricanes in the Gulf coast cause gasoline supply disruptions while the summer travel season ends. Market: gasoline.

The graph below shows supply and demand curves for annual medical office visits.

a. If the market were free from government regulation, what would be the equilibrium price and quantity?

b. Calculate total expenditures on office visits with this equilibrium price and quantity.

c. If the government subsidized office visits and required that all consumers were to pay $30 per visit no matter what the actual cost, how many visits would consumers demand?

d. What payment per visit would doctors require in order to supply that quantity of visits?

e. Calculate total expenditures on office visits under the condition of this $30 co-payment.

f. How do total expenditures with a co-payment of $30 compare to total expenditures without government involvement? Provide a numerical answer.