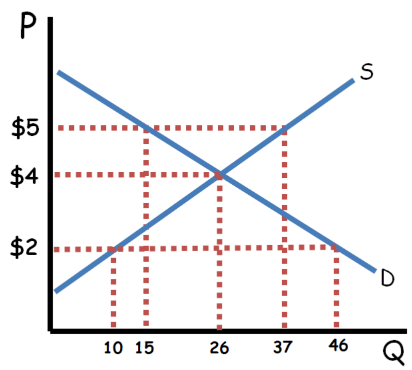
Topic 1.6 Market Equilibrium

Part I: Use the graph below to answer questions about this market:



1. What is the market equilibrium price and quantity?

2. If the price is $5, will there be a shortage or surplus?

3. If the price is $5, how much of a surplus or shortage will there be?

4. If the price is $5, what will eventually happen to the price and what will it be?

5. If the price is $2, will there be a shortage or a surplus? What is the QD? What is the QS?

6. If the price is $2, how much of a surplus or shortage will there be?

7. If the price is $2 what will eventually happen to the price and what will it be?

Part II: Use the table below to answer questions about this market:

Price	Qs	Qd
$1.00	100	400
$2.00	200	350
$3.00	300	300
$4.00	400	250
$5.00	500	200

1. What is the market equilibrium price and quantity?

2. If the price is $4, will there be a shortage or surplus?

3. If the price is $4, how much of a surplus or shortage will there be?

4. If the price is $4, what will eventually happen to the price and what will it be?

5. If the price is $1, will there be a shortage or a surplus? Why?

6. If the price is $1, how much of a surplus or shortage will there be? Show your work.

7. If the price is $1 what will eventually happen to the price and what will it be?

Part III: For each of the scenarios below indicate what will happen to the equilibrium price and quantity of the underlined product. Then, explain how the change occurred (what shifted and which direction).

	Price	Quantity	Explanation (why did it change)
An increase in the price of sugar has this impact on the production of sugary drinks			
Americans stop drinking as much coffee and begin drinking tea instead			
Incomes fall, having this impact on the shoe market (shoes are a normal good)			
A large number of corn farmers exit the market			
To help pay for road repairs, the government increases the taxes on gasoline production			
The price of sandals falls, this is the impact on the flip-flop market (they are substitutes)			
For Valentine's Day many men buy their wives roses			