ECON 101/200

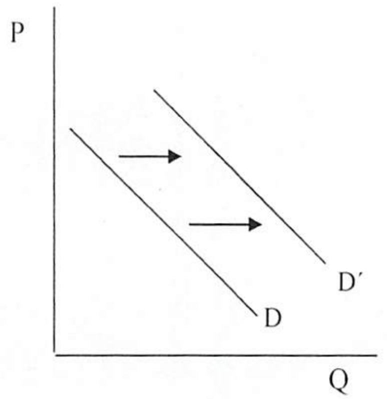
Key

Principles of Microeconomics
Dr. Walker

PROBLEM SET 3
ch. 5, Δ in D & Qd

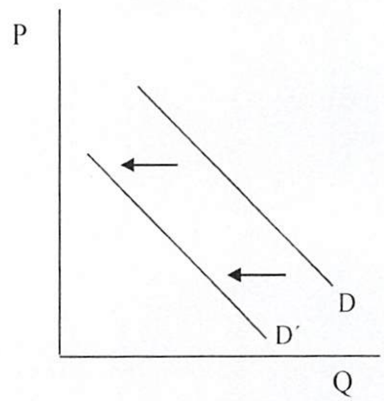
v25-8

Instructions: Figures (C) and (D) depict changes in demand. Use these figures for the problems. Answer problems 1-11 on this sheet; answer 12-15 on separate paper. Draw your graphs for 12-15 legibly.



C

incr. in D



D

decr. in D

1. Label the graphs above to indicate "increase in D" or "decrease in D", as appropriate.

For scenarios 2-11 below, indicate which graph above (*C* or *D*) represents that scenario.

2. __D__ In the market for cars: the effect of an increase in the price of gas.

3. __D__ In the market for decongestant medications such as DayQuil and Sudafed: the effect of a Food and Drug Administration report indicating that the active ingredient phenylephrine is ineffective as a decongestant.

4. __C__ In the market for pizza: the effect when the price of tacos (a substitute for pizza) increases.

5. __C__ In the market for marijuana: the effect on the market <u>this week</u> when pot users expect the price of pot to increase next week.

6. __D__ In the market for college education: the effect when dorm room rent increases.

7. __D__ In the market for Spam (an inferior good): the effect when consumers' incomes rise.

8. __C__ In the market for snow skis: the western U.S. receives record snowfall this season.

9. __C__ In the market for hand guns: the effect of the president announcing upcoming restrictions on gun ownership.

10. __D__ In the market for water skis: the effect of falling water temperatures in September and October.

11. __C__ In the market for tennis shoes: the effect when tennis shoes become the trendy thing to wear on campus.

(12) Draw the graph for each scenario. You can see above to check.
(13) D and MB will fall if there's this new 'risk cost' to beer consumption.
(14) These should be graphs showing No shift, just movement along the D curves. (See lecture notes)
(15) No, there's not a ΔD (which are shown in C and D above); it causes a ΔQd, or movement along the curve, which you should've done in #14.