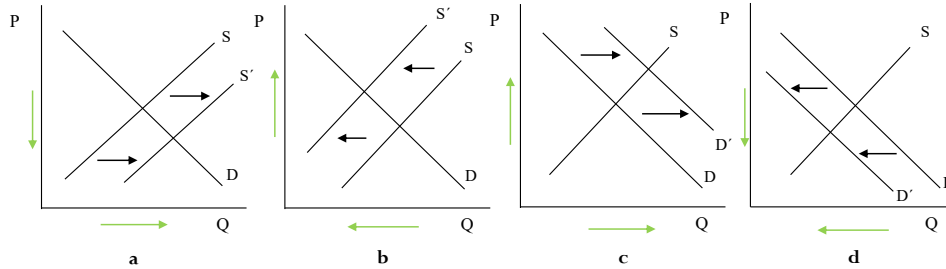


Dr. Walker

Draw a graph to illustrate what happens to P_e and Q_e in each scenario described below. Be sure to label the P and Q axis, and the S and D curves.

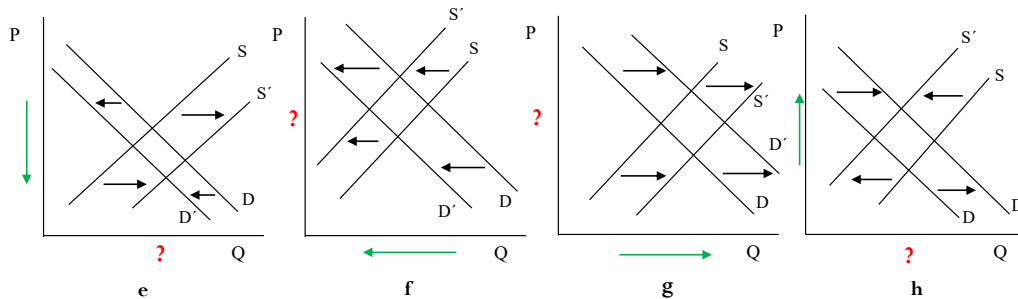
Scenarios 1-9 have only one curve shift. Clearly indicate the direction of P and Q changes. (Shown in green arrows.)



d	1.	In the market for <u>popcorn</u> : the effect of an increase in the price of movies (a complement to popcorn).
a	2.	In the market for <u>coffee</u> : the effect of good weather in coffee-growing countries.
b	3.	In the market for <u>cars</u> : the effect of a United Auto Workers strike.
d	4.	In the market for <u>college education for 20-year-olds</u> : factory wage rates increase substantially. (Assume 20-year-olds can work or go to college.)
c	5.	In the market for <u>gasoline this week</u> : consumers expect the price of gas to be much higher next week.
a	6.	In the market for <u>gasoline</u> : the effect of a decrease in the price of crude oil, an input to gas.
d	7.	In the market for <u>hot dogs</u> (an inferior good): the effect of an increase in consumers' incomes.
b	8.	In the market for <u>tacos</u> : Taco Bell closes all its Charleston area restaurants.

Scenarios 9-12 have **TWO** curve shifts. Indicate the direction of the "certain" variable, and indicate which variable change is "uncertain." (Recall that when both S and D shift, we lose the ability to predict the direction of either P or Q).

(Variable changes we know are shown by green arrows; those we don't have a red ?)



g	9.	In the market for <u>wheat</u> : a scientific report proves that wheat bread prevents cancer; farmers experience good weather this year.
h	10.	In the market for <u>cocaine</u> : more police are hired to arrest dealers; more people start using drugs.
e	11.	In the market for <u>compact discs (CDs)</u> : the price of plastic falls; cars are no longer equipped with CD players.
f	12.	In the market for <u>water skis</u> : ski-factory workers go on strike; the weather and water are turning colder.

13. Draw a graph illustrating the market for tacos. Let the $P_e = \$4$ and $Q_e = 100$. Label the axes and curves.

- Illustrate what happens in the market for tacos if the price of tortillas decreases. [S tacos increases]
- Now indicate Q_d and Q_s at the original P_e . (Make up some numbers on the Q axis.) [At $P_e = \$4$, $Q_s = Q_d = 100$]
- At the original P_e , is there a shortage or surplus in the market? Of how many tacos? [After S increases, $Q_d = 100$, $Q_s = 130$; there's a surplus of 30 tacos.] Note: your numbers may be different than mine.
- What do you expect to happen to the P_{tacos} as a result of the situation in (c)? [P will fall since there's a surplus at the original P of \$4.]
- As a result of the price adjustment, illustrate (using arrows on the graph) what happens to Q_d and Q_s . [Q_d rises and Q_s falls as P decreases.]
- Label the new P_e and Q_e after all the adjustments occur. [Labeled P^* and Q^* .]

