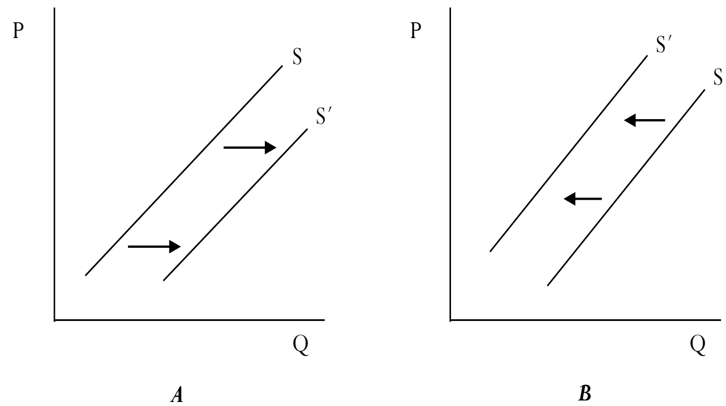
Principles of Microeconomics
Dr. Walker

PROBLEM SET 2
ch. 4, Δ in S & Qs

v25-8

Instructions: Figures (A) and (B) depict changes in supply. Use these figures for the problems. Answer problems 1-10 on this sheet; answer 11-14 on separate paper. Draw your graphs for 11-14 legibly.



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

For scenarios 2-10 below, indicate which graph above (*A* or *B*) represents that scenario.

2. ______ 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.

3. ______ In the market for tacos in Charleston: the effect when BarTaco opened its new location on King St.

4. ______ In the market for marijuana: the effect of a decrease in the price of cotton (marijuana and cotton are substitutes in production).

5. ______ In the market for college education: the effect of significant increases in college administrators' salaries.

6. ______ In the market for Spam: the effect of road-kill animals (whose meat is used in Spam) becoming less common.

7. ______ In the market for snow skis: the effect of Austrian workers becoming more productive. (Austria is a major ski-producing country.)

8. ______ In the market for gasoline: the effect of the Trump administration announcing it has approved new federal government oil production leases in Alaska.

9. ______ In the market for textbooks: the effect when bookstore managers expect the price of textbooks to decrease next semester. (What happens to S this semester?)

10. ______ In the market for water skis: ski-factory workers go on strike.

11. Next, try to ignore your answers to 2-10 above and use a separate sheet of paper to draw a complete graph for each scenario. Be sure to label your axes and the curves you draw; clearly indicate which direction the curve shifts. (NOTE: I know this is repetitive, but it's important that you practice drawing the graphs we use.)

12. Recall from the lecture that the *S* curve is the same thing as the *MC* curve (*S=MC*). Consider the supply of tacos. What happens to the *cost of producing* each individual taco (*MC*), when the price of steak – an input to producing tacos – increases? Draw a graph in which you show the effect of the steak price change on the supply of tacos. Label everything in your graph.

13. Draw one graph depicting a "decrease in quantity supplied" and another showing an "increase in quantity supplied." Be sure to label the axes, curves, and changes. Finally, note what could cause the Δ Qs depicted in your graphs.

14. Does **supply change** (Δ S) when the price of a product increases? Explain why or why not. (HINT: There is a difference between a *change in supply* (Δ S) and a *change in quantity supplied* (Δ Qs)).