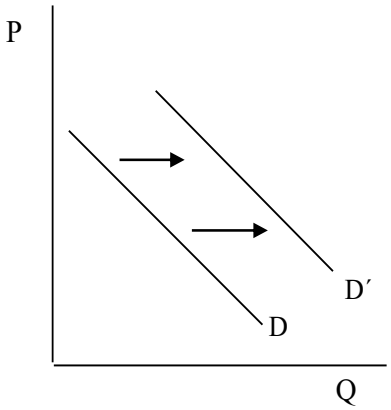
Principles of Microeconomics
Dr. Walker

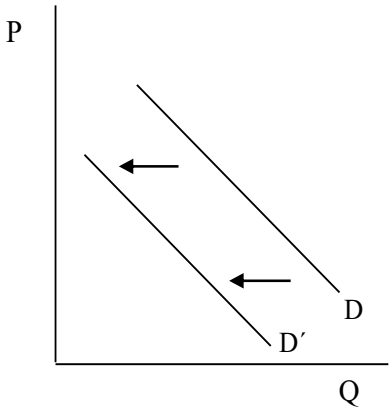
PROBLEM SET 3
ch. 5, Δ in D & Qd

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



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

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

5. _____ In the market for marijuana: the effect on the market this week when pot users expect the price of pot to increase next week.

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

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

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

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

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

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

12. Next, try to ignore your answers for 2-11 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: Just like (11) from PS-2, this is repetitive. But this will help you learn the model!)

13. Recall from the lecture that the *D* curve is the same thing as the *MB* curve (*D=MB*). Consider the demand for beer. What happens to college students' willingness to pay (D) and the marginal benefit (MB) of drinking beer, if the Charleston police department focuses on arresting underage drinkers in bars?

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

15. Does **demand change** (ΔD) when the price of a product decreases? Explain why or why not. (HINT: There is a difference between a *change in demand* (ΔD) and a *change in quantity demanded* (ΔQd)).