## Problems

28.

Identify each of the following as involving either demand or supply. Draw a circular flow diagram and label the flows A through F. (Some choices can be on both sides of the goods market.)

1. Households in the labor market
2. Firms in the goods market
3. Firms in the financial market
4. Households in the goods market
5. Firms in the labor market
6. Households in the financial market

29.

Predict how each of the following events will raise or lower the equilibrium wage and quantity of oil workers in Texas. In each case, sketch a demand and supply diagram to illustrate your answer.

1. The price of oil rises.
2. New oil-drilling equipment is invented that is cheap and requires few workers to run.
3. Several major companies that do not drill oil open factories in Texas, offering many well-paid jobs outside the oil industry.
4. Government imposes costly new regulations to make oil-drilling a safer job.

30.

Predict how each of the following economic changes will affect the equilibrium price and quantity in the financial market for home loans. Sketch a demand and supply diagram to support your answers.

1. The number of people at the most common ages for home-buying increases.
2. People gain confidence that the economy is growing and that their jobs are secure.
3. Banks that have made home loans find that a larger number of people than they expected are not repaying those loans.
4. Because of a threat of a war, people become uncertain about their economic future.
5. The overall level of saving in the economy diminishes.
6. The federal government changes its bank regulations in a way that makes it cheaper and easier for banks to make home loans.

31.

[Table 4.6](#Table_04_06) shows the amount of savings and borrowing in a market for loans to purchase homes, measured in millions of dollars, at various interest rates. What is the equilibrium interest rate and quantity in the capital financial market? How can you tell? Now, imagine that because of a shift in the perceptions of foreign investors, the supply curve shifts so that there will be $10 million less supplied at every interest rate. Calculate the new equilibrium interest rate and quantity, and explain why the direction of the interest rate shift makes intuitive sense.

|  |  |  |
| --- | --- | --- |
| Interest Rate | Qs | Qd |
| 5% | 130 | 170 |
| 6% | 135 | 150 |
| 7% | 140 | 140 |
| 8% | 145 | 135 |
| 9% | 150 | 125 |
| 10% | 155 | 110 |

Table 4.6

32.

Imagine that to preserve the traditional way of life in small fishing villages, a government decides to impose a price floor that will guarantee all fishermen a certain price for their catch.

1. Using the demand and supply framework, predict the effects on the price, quantity demanded, and quantity supplied.
2. With the enactment of this price floor for fish, what are some of the likely unintended consequences in the market?
3. Suggest some policies other than the price floor to make it possible for small fishing villages to continue.

33.

What happens to the price and the quantity bought and sold in the cocoa market if countries producing cocoa experience a drought and a new study is released demonstrating the health benefits of cocoa? Illustrate your answer with a demand and supply graph.