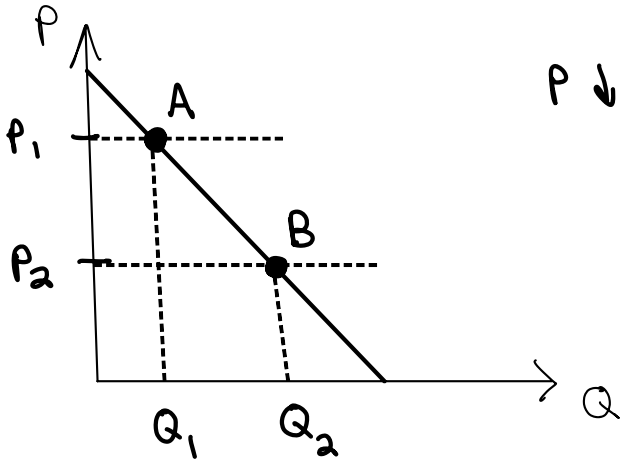
ECON 101

TA Worksheet, Module 2 (Demand)

Name:_____ TA:_____

1. Draw a demand curve (label everything). Then, show me (with a picture of a demand curve) how consumers react when price falls. Label the starting point A and the end point B.

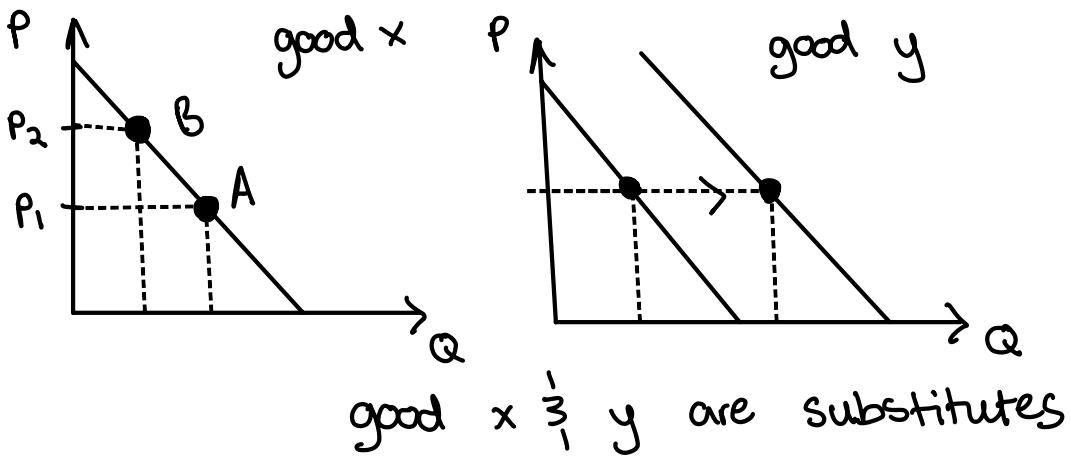


P ↓ → ↑ QD

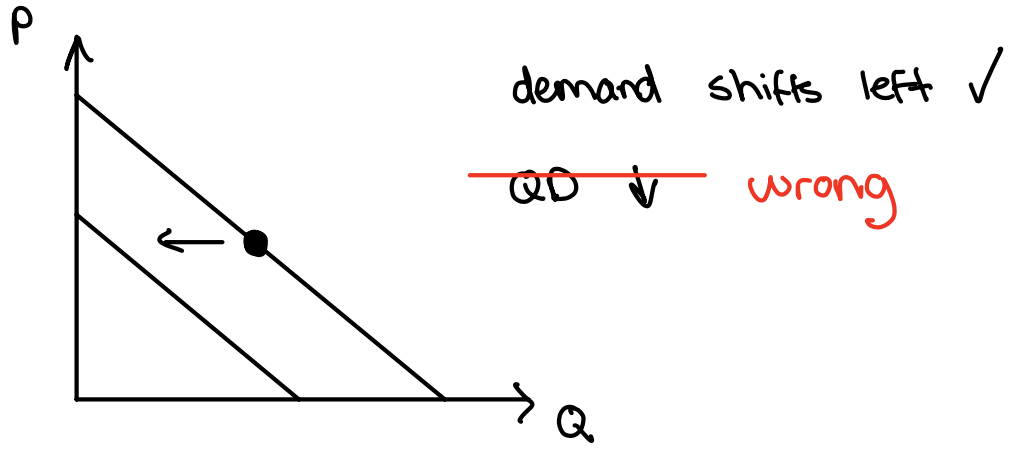
2. What's wrong with this statement? "Falling prices have increased demand for electric cars."

quantity demanded

3. Show (with pictures) how demand reacts to an increase in the price of a substitute good.



4. Winter is here. How does that affect the demand side of the market for ice cream? Answer in words and pictures.



5. Suppose you have $10 to spend. Slices of pizza cost $2 each. Cans of Coke cost $1 each. Given the following utility data, how much of each will you buy to maximize your utility?

Slices of Pizza	TU	MU	MU/P	Cans of Coke	TU	MU	MU/P
1	20	20	10	1	20	20	20
2	36	16	8	2	35	15	15
3	46	10	5	3	45	10	10
4	52	6	3	4	50	5	5
5	54	2	1	5	53	3	3
6	51	-3	-3/2	6	52	-1	-1

2 Rules to maximizing utility: 1. use entire budget

option 1: 1 pizza 3 coke

option 2: 3 pizza 4 coke

option 3: 4 slices 5 cokes

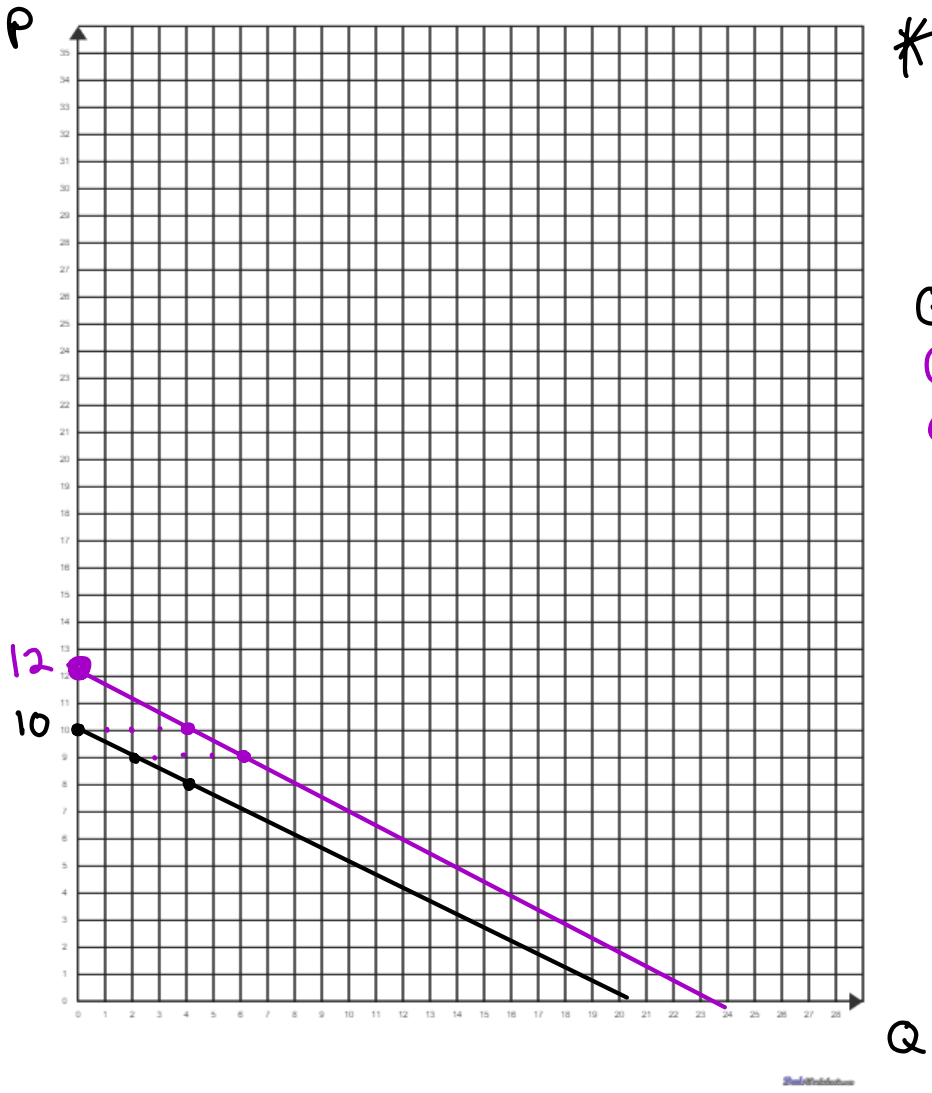
2. equate $\frac{MU}{P}$ across all goods

option 1: $1(2) + 3(1) = 2 + 3 = 5$

option 2: $3(2) + 4(1) = 6 + 4 = 10$

option 3: $4(2) + 5(1) = 8 + 5 = 13$

6. On the graph below #7, graph this demand curve (solve for P first to get inverse demand): Q=20-2P.
7. Then graph the curve that would show what happens if D shifts out by 4. What's the equation for that new curve?



$Q = 20 - 2P$

$2P = 20 - Q$

$P = -\frac{1}{2}Q + 10$

$Q = 20 - 2P$

$Q = 20 - 2P + 4$

$Q = 24 - 2P$

$2P = 24 - Q$

$P = -\frac{1}{2}Q + 12$