Introductory Microeconomics

Tutorial 3

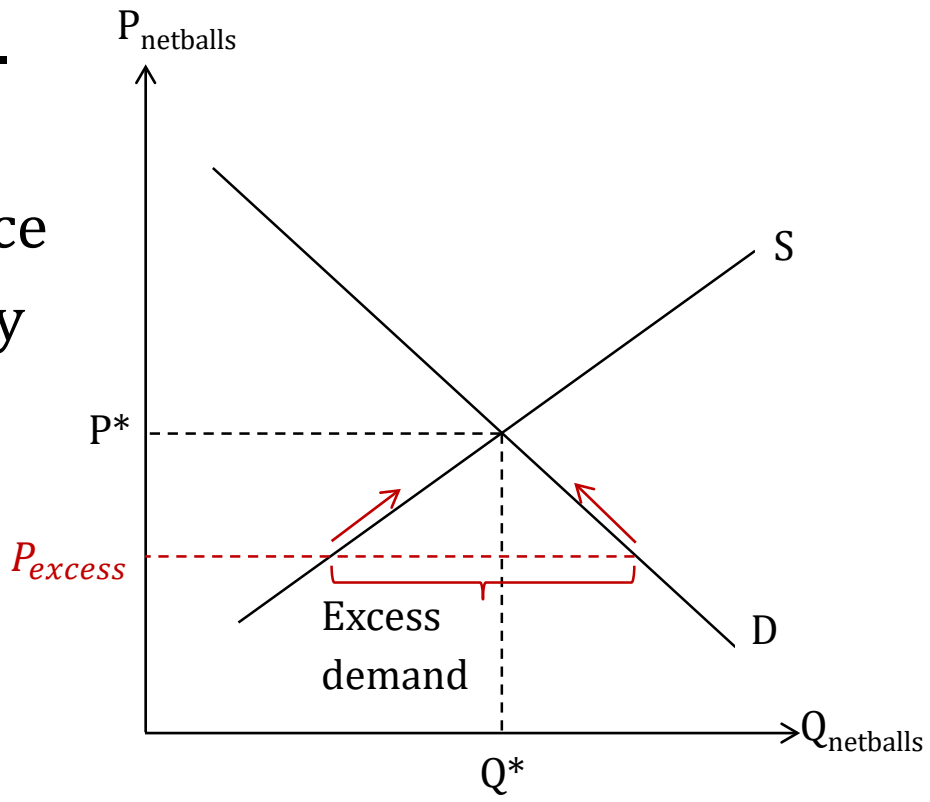
Nhan La

Task 1

1/

- Excess demand causes an increase in price towards P^*.

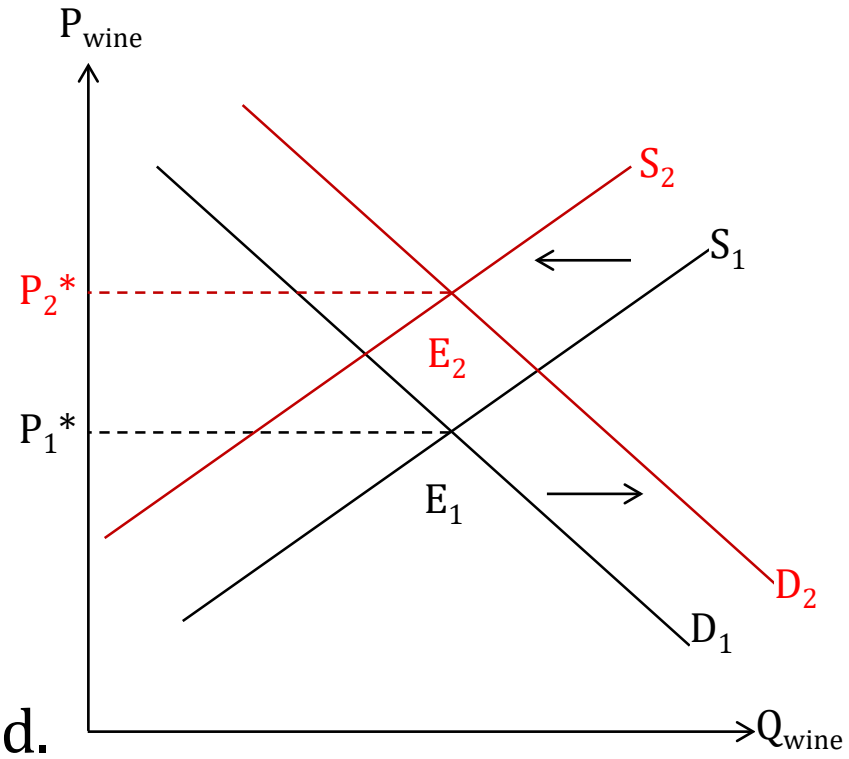
- In turn, an increase in price causes a decrease in quantity demanded and an increase in quantity supplied



Task 1

2/

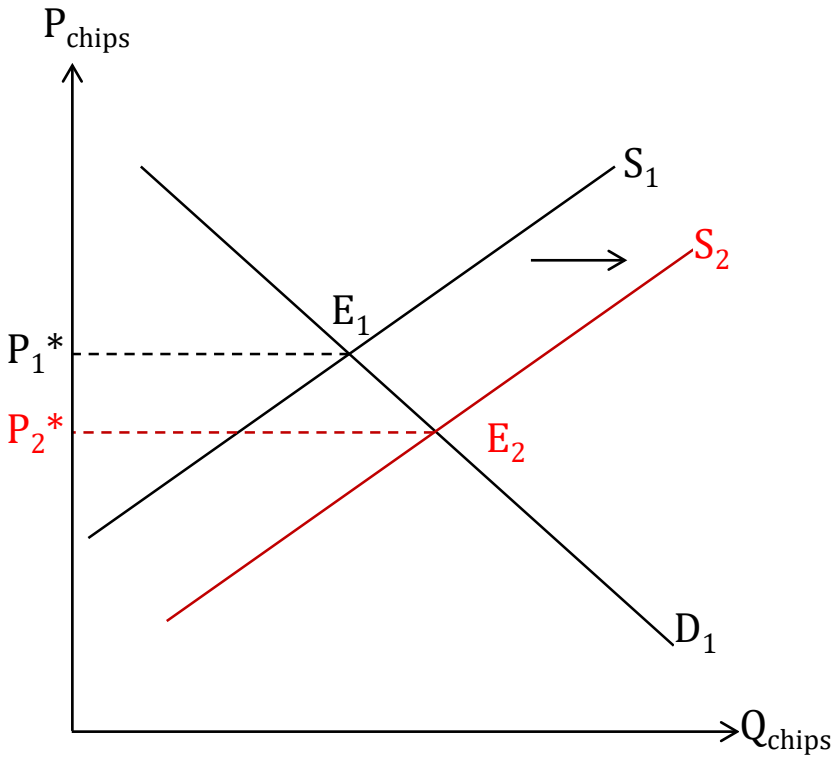
- An increase in the incidence of disease will decrease supply.
- An increase in the price of beer (substitute) will increase demand.
- Equilibrium price will increase.
- Effect on equilibrium quantity traded isn't determined.



Task 1

3/

- Improving production efficiency will increase supply of microchips, thus lowering equilibrium price.
- A decrease price of input (microchips) will increase supply of hardware, thus increasing quantity traded.



Task 1

$4/\ Q_d = 10 - 2P + Y; Q_s = 2 + P + 0.5W$

a/ $Y = 1; W = 2$

- Demand curve:

$Q_d = 10 - 2P + 1 = 11 - 2P$

- Supply curve:

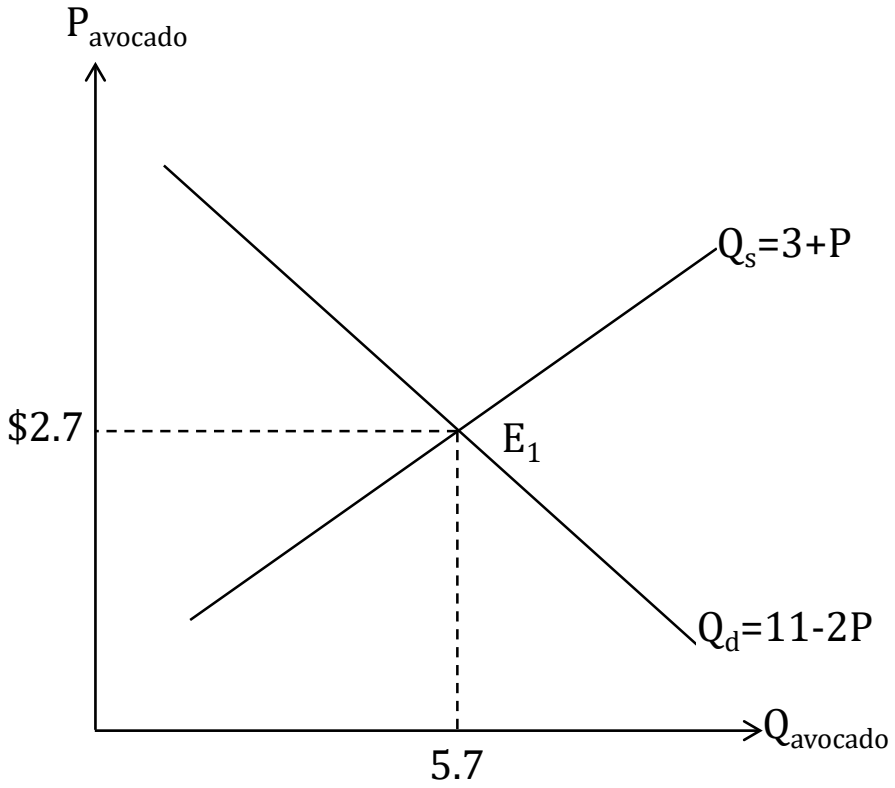
$Q_s = 2 + P + 0.5W = 3 + P$

- To find P^* and Q^* at E_1, solve:

$$\begin{cases} Q^* = 11 - 2P^* \\ Q^* = 3 + P^* \end{cases}$$

- To find revenue at E_1, use:

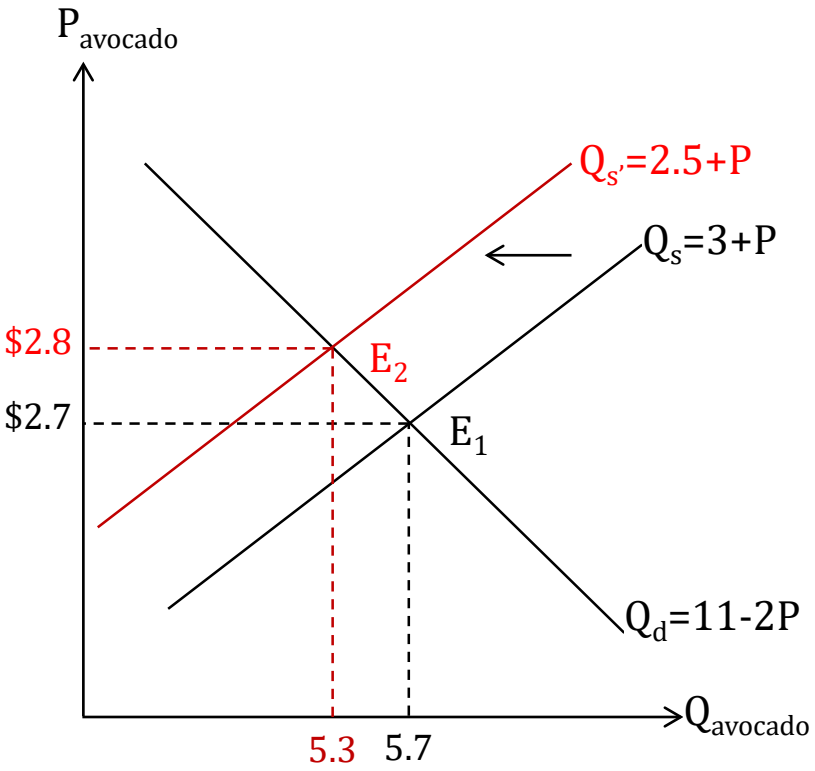
$R = P^* \text{x} Q^*$



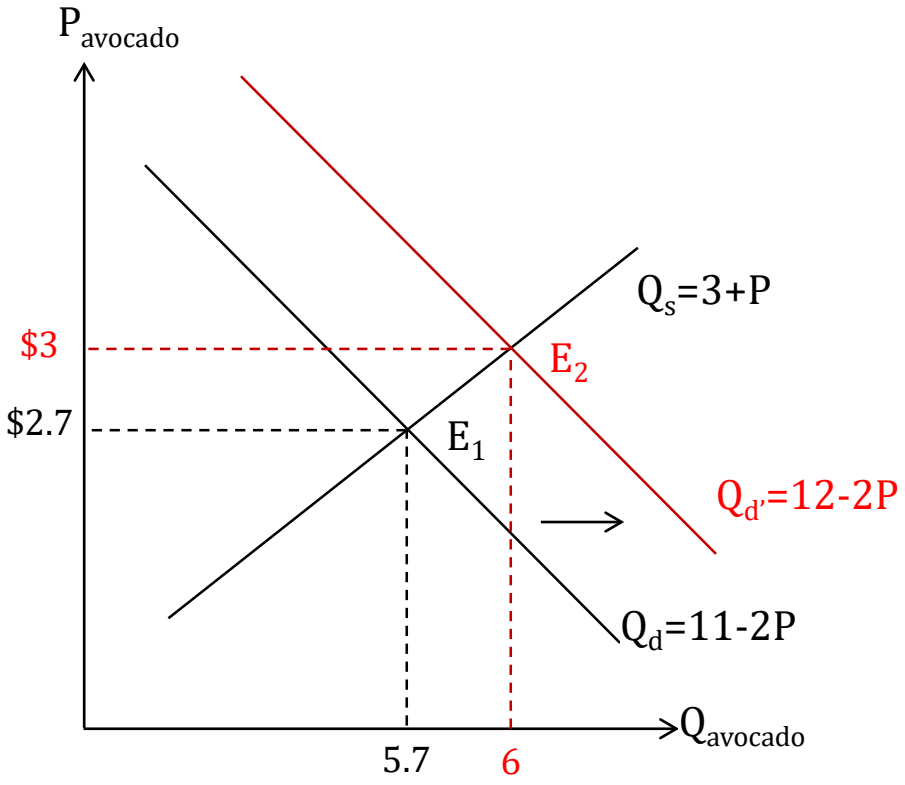
Task 1

4/ Follow similar steps for parts b/ and c/

b/



c/



Task 2

a/ Demand increased; Supply decreased

b/ Similar to question 2, Task1

Equilibrium price increased

c/ Magnitude of change in demand was relatively larger than that in supply

d/ The issue of taste and preference