

ECON 1010 Intro Microeconomics In-Class Activity 2 (8/29/25)

Please work in **new** groups of 3-4 to answer *all* the following questions as thoroughly and accurately as possible. In addition to discussing with your group, feel free to use your notes and ask questions. Note that grading is based on effort, not correctness, but I am looking for good, focused effort throughout the in-class activity. To incentivize effort and teamwork, there is also an extra credit portion of this activity. However, extra credit questions will *only* be graded (based on correctness) if every group member has thoroughly answered all “regular credit” questions. I reserve the right not to award extra credit points if I feel the answers to the regular credit questions were rushed or partial.

1. In your own words, define and explain a market and market competition.
 - a. What are firms looking to maximize? Do they prefer more or less market competition? Why? Give an example of how firms may try to achieve their desired level of competition.
2. Imagine a market where many firms sell identical goods (perfect competition setup). What are intuitive reasons that no firm would charge above the market price? Below the market price?
3. What is the defining question of demand? Of supply? What are the laws of supply and demand (one law for each), and why do they make sense?
 - a. In the laws of supply and demand, why is “all else equal” so important? What do we allow to vary on supply and demand graphs? If something outside of those varies, how is that reflected on the graph?
 - b. What is the difference between an increase in quantity supplied and an increase in supply?
4. How does market equilibrium occur (i.e., what happens if the price is too high or too low)? Illustrate this on a graph for the potato chip market.
 - a. How does this relate to the “invisible hand” in Adam Smith’s *Wealth of Nations* (i.e., what is the hand and why is it invisible)?
5. Draw a graph representing the market for microchips and mark the equilibrium price and quantity. How would an invasion of Taiwan (the biggest producer of microchips in the world) affect this market? Represent this graphically and mark the new equilibrium price and quantity.
 - a. Now imagine that this invasion pulls several world militaries into a conflict, increasing their need for advanced microchips. Draw a new graph with both shifts. What do we know for sure about this new equilibrium? What is ambiguous in this new equilibrium?

Extra Credit Questions

1. Draw the market for microchips in equilibrium. Imagine there is a growing national belief that the price of microchips will become more expensive in the future. What happens to supply and demand? Why?
 - a. What is the change in equilibrium price and quantity due to this belief?
 - b. What does this say about how expectations can influence reality?
2. When both supply and demand shift, there is **always** an ambiguous change in either equilibrium price or quantity. Why? Create a 2x2 chart with increase/decrease in supply on one side and increase/decrease in demand on the other to help illustrate this point.
3. Think about a good that is a necessity (e.g., water) and another that people can live without (i.e., candy). How would the demand curve be different in these two situations? Why?