

HOMEWORK

Macroeconomics

Unit 2

Instructions for homework:

1. Draw a separate classic supply/demand model for each part of each question: 16 TOTAL on Page 1.
 - a. For example: #1, a, b, c; case1, case 2 etc.
 - b. Answer the three questions regarding event scenarios
 - c. Draw a shift in supply OR demand as needed. Indicate any increase or decrease in price and quantity
 2. Draw graph from Page 2
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1. A survey indicated that chocolate ice cream is America's favorite ice cream flavor. For each of the following, indicate the possible effects on demand or supply and equilibrium price and quantity of chocolate ice cream.
 - a. A severe drought in the Midwest causes dairy farmers to reduce the number of milk-producing cattle in their herds by a third. These dairy farmers supply cream that is used to manufacture chocolate ice cream.
 - b. A new report by the American Medical Association reveals that chocolate does, in fact, have significant health benefits.
 - c. The discovery of cheaper synthetic vanilla flavoring lowers the price of vanilla ice cream.
 - d. New technology for mixing and freezing ice cream lowers manufacturers' cost of producing chocolate ice cream
 2. In a supply and demand diagram, draw the shift in demand in hamburgers in your hometown due to the following events. In each case show the effect on equilibrium price and quantity.
 - a. The price of tacos increases.
 - b. All hamburger sellers raise the price of their French fries.
 - c. Income falls in town. Assume that hamburgers are a normal good for most people.
 - d. Income falls in town. Assume that hamburgers are an inferior good for most people.
 3. Show a diagram the effect on the demand curve, the supply curve, the equilibrium price, and the equilibrium quantity of each of the following events.
 - a. The market for newspapers in your town.
Case 1: The salaries of journalists go up.
Case 2: There is a big news event in your town, which is reported in the newspapers.
 - b. The market for St. Louis Rams cotton T-shirts.
Case 1: The Rams win the national championship.
Case 2: The price of cotton increases.
 - c. The market for bagels.
Case 1: People realize how fattening bagels are.
Case2: People have less time to make themselves a cooked breakfast.
 - d. The market for Krugman and Wells economics textbook.
Case 1: Your professor make it required reading for all of his or her students.
Case 2: Printing costs for textbooks are lowered by the use of synthetic paper.

Price	Quantity Demanded	Quantity Supplied
\$1.00	45	90
\$0.90	50	80
\$0.80	55	70
\$0.70	60	60
\$0.60	65	50
\$0.50	70	40
\$0.40	75	30