

Questions for Review

1. What is a competitive market? Briefly describe a type of market that is *not* perfectly competitive.
2. What are the demand schedule and the demand curve, and how are they related? Why does the demand curve slope downward?
3. Does a change in consumers' tastes lead to a movement along the demand curve or to a shift in the demand curve? Does a change in price lead to a movement along the demand curve or to a shift in the demand curve? Explain your answers.
4. Hari's income declines, and as a result, he buys more pumpkin juice. Is pumpkin juice an inferior or a normal good? What happens to Hari's demand curve for pumpkin juice?
5. What are the supply schedule and the supply curve, and how are they related? Why does the supply curve slope upward?
6. Does a change in producers' technology lead to a movement along the supply curve or to a shift in the supply curve? Does a change in price lead to a movement along the supply curve or to a shift in the supply curve?
7. Define the equilibrium of a market. Describe the forces that move a market toward its equilibrium.
8. Coke and pizza are complements because they are often enjoyed together. When the price of coke rises, what happens to the supply, demand, quantity supplied, quantity demanded, and price in the market for pizza?
9. Describe the role of prices in market economies.
10. Market research has revealed the following information about the market for chocolate bars: The demand schedule can be represented by the equation $QD = 1,600 - 300P$, where QD is the quantity demanded and P is the price. The supply schedule can be represented by the equation $QS = 1,400 + 700P$, where QS is the quantity supplied. Calculate the equilibrium price and quantity in the market for chocolate bars.
11. Consider the following events: Scientists reveal that consumption of oranges decreases the risk of diabetes, and at the same time, farmers use a new fertilizer that makes orange trees more productive. Illustrate and explain what effect these changes have on the equilibrium price and quantity of oranges.
12. The market for pizza has the following demand and supply schedules:

Price (in 100s)	Quantity Demanded	Quantity Supplied
Rs4	135 pizzas	26 pizzas
5	104	53
6	81	81
7	68	98
8	53	110
9	39	121

a. Graph the demand and supply curves. What is the equilibrium price and quantity in this market?

b. If the actual price in this market were above the equilibrium price, what would drive the market toward the equilibrium?

c. If the actual price in this market were below the equilibrium price, what would drive the market toward the equilibrium?

13. A survey shows an increase in drug use by young people. In the ensuing debate, two hypotheses are proposed:

- Reduced police efforts have increased the availability of drugs on the street.
- Cutbacks in education efforts have decreased awareness of the dangers of drug addiction.

a. Use supply-and-demand diagrams to show how each of these hypotheses could lead to an increase in quantity of drugs consumed.

b. How could information on what has happened to the price of drugs help us to distinguish between these explanations?

14. Suppose everyone is paid the same wage in a labour market. If a binding minimum wage, \underline{w} , is imposed, what happens to the equilibrium in this market?