The market for brioches and cappuccinos has the following demand and supply schedules:

|  |  |
| --- | --- |
| **Price** | **Supply** |
| 4 | 26 |
| 5 | 53 |
| 6 | 81 |
| 7 | 98 |
| 8 | 110 |
| 9 | 121 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  | | --- | --- | --- | | **Price** | **Supply** | **Demand** | | 4 | 26 | 135 | | 5 | 53 | 104 | | 6 | 81 | 81 | | 7 | 98 | 68 | | 8 | 110 | 53 | | 9 | 121 | 39 | |

a) Graph the [demand curve](https://moodle.unive.it/mod/resource/view.php?id=38952) and the supply curve

-------------x-----------------x-------------------x----------------x---------------

b) Which is the equilibrium price for this market? What about the equilibrium quantity?

Pe=6 and Pq=81

-------------x-----------------x-------------------x----------------x---------------

c) Suppose that the current price is above the equilibrium price. What would drive the market towards equilibrium? Now suppose that the current price is below the equilibrium one. How would your previous answer change?

If we suppose that the current price is above the equilibrium price 6 (i.e. 6<x) it will lead to surplus such that the supplied quantity will exceeds the demanded quantity and the sellers must have to lower the price so to attain equilibrium and prevent market shutdown for his product.

Secondly, if we suppose that the current price is below the equilibrium price 6 (i.e. 6>x) it will lead to shortage such that the supplied quantity will fall short because of high demand rate and the sellers will increase their market prices for their service or goods and shortly after this increase market price will attain equilibrium.

-------------x-----------------x-------------------x----------------x---------------

d) Consider that brioches and cappuccinos are complementary goods. Suppose that, starting from an equilibrium condition on both markets, you observed an increase in the equilibrium price of brioches and in the equilibrium quantity for cappuccinos.

a) Could such a change be caused by a reduction in the price of wheat?

b) Could such a change be caused by a reduction in the price of milk?

As we know the composition of both of these items are as follow

Brioches (made from Wheat flour and some milk) while Cappuccinos (entirely from milk and no wheat flour is necessary)

If we observed surplus in market of brioches it means brioches are in abundant quantity in market and this might be because of reduction in price of wheat and milk too.

While increase in the equilibrium quantity of cappuccinos is due to the reduction in price of milk but not wheat.

So, yes such a change can be caused by reduction in price of its precursors goods i.e. wheat and milk.

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