

Handout-In Class Exercise

Here I have given the answers to some questions which you can use as a reference. Please feel free to contact with me if you have any question. Good luck!

2. Because corn and butter are complements to each other, the increase in price of butter plays negative effect on demand of corn. The supply and demand graph changes as follows.

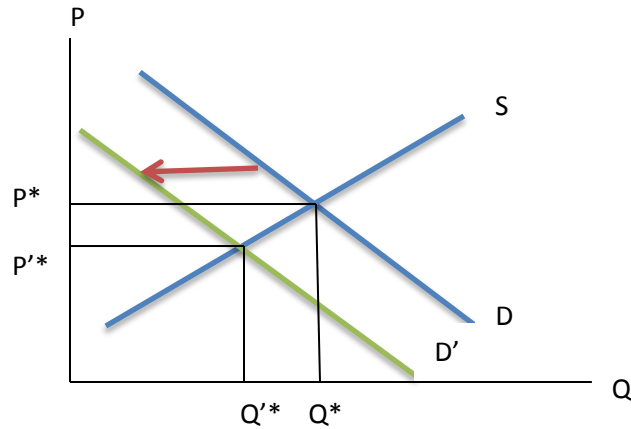


Figure 1. Corn market when butter price increases

From the graph, we can find that the new market clearing price in corn market decreases and market clearing quantity decreases, too. Similarly, when the price of fertilizer decreases, the supply will shift to the right due to lower production cost. The supply and demand graph changes as follows.

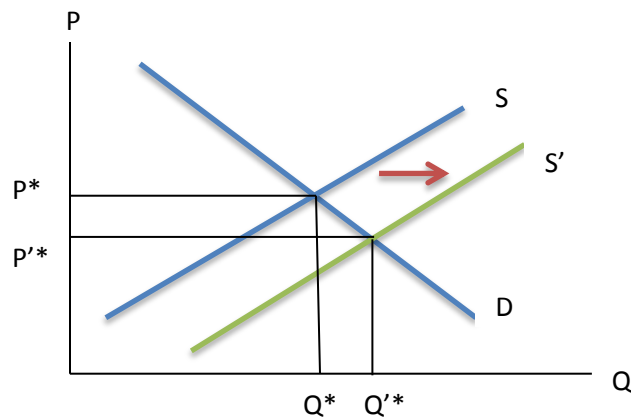


Figure 2. Corn market when fertilizer price dereases

From the graph, we can find that the new market clearing price in corn market decreases and market clearing quantity increases.

3. Tully's and Seattle Best coffee are substitutes to each other, thereby the decrease in the average prices of Tully's coffee plays negative effect on demand of Seattle Best coffee. The supply and demand graph is essentially the same as Figure 1. So the market clearing price will decrease and the market clearing quantity will decrease, too.

4.

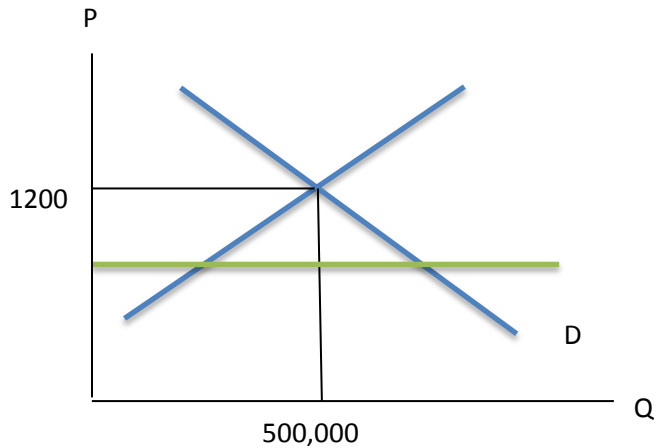


Figure 3. Price ceiling in apartments market

We can observe from the graph that due to the price ceiling, the demand on apartments is higher than quantity at the equilibrium, and the supply is lower than the equilibrium quantity. Therefore, a shortage occurs in the market.

5. During "home-coming" weekend, the demand on hotel rooms is much higher than that during the rest of the semester. Thereby, we can see how the price and quantity changes through the following graph.

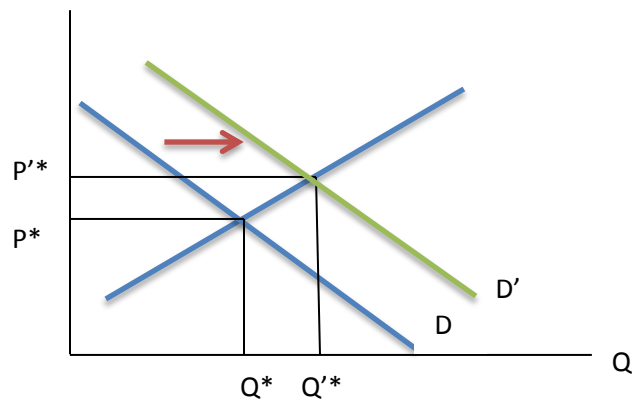


Figure 4. Market of hotel rooms

6. This will be similar to Figure 2. So the increase in production will lead supply shift to the right, and thereby the equilibrium price will decrease and the quantity will increase.