Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

CHAPTER 5 + 6 – Supply and Price

Activator Chapter 5 Section 1

Scenario: Imagine you are beginning a landscaping business in your neighborhood. One of your neighbors tells you they are willing to pay you $30 a week for your services, which includes mowing their lawn, edging, and weed whacking. You tell them, “It’s a deal!” and agree to mow their lawn 4 times a month. A second neighbor tells you that they will pay you $20 a week for your services. You think to yourself, “Well, it’s not as good a deal as the first neighbor, but I’m just starting out”, and you agree to mow their lawn 2 times a month. The third neighbor you approach tells you that they are willing to pay you $10 a week for your services. You tell them that you will service their lawn 1 time a month because they are a friend of the family. The 4th person offers you $5, and you politely decline.

|  |  |
| --- | --- |
| Price For Lawn Mowing Service | Quantity Supplied |
|  |  |
|  |  |
|  |  |
|  |  |

1. From left to right, which way is the curve sloping? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. Why do you think it is sloping in that direction? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Supply

* Supply – the amount of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + The amount of a product that \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
    \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

The Law of Supply

* Law of Supply – the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the price offered, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the quantity produced by the supplier; the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ prices offered, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_quantity supplied
  + Direct (positive) relationship between \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Two reasons for law of supply:

* Increased Production - Suppliers will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Market Entry - New firms will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

The Supply Schedule and Curve

* Supply Schedule - a table that lists \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Market Supply Schedule - lists the quantity supplied of a good that \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Supply Curve - A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Scenario: You have been producing for a number of months at the same rate in your landscaping business. In fact, many of your neighbors have requested your services. However, you have previously been unable to fulfill their demand for your services because you are still a full time student and you have to share your time running your business with your time at school. However, the past three months of revenue have allowed you to upgrade your lawnmower from a push to a riding lawnmower. You also recently purchased a gas powered weed whacker and edger. This allows you to double your production rate as a result of increased efficiency. Unfortunately, a month into your new production rates gas prices triple. This causes you to have to cut back on production and decrease your supply. Plot the new supply schedules on your supply curve.

|  |  |  |  |
| --- | --- | --- | --- |
| Price For Lawn Mowing Service | Original Quantity Supplied | Quantity Supplied   New Equipment | Quantity   Supplied Increased Gas Prices |
| $30.00 | 4 |  |  |
| 20.00 | 2 |  |  |
| 10.00 | 1 |  |  |
| 5.00 | 0 |  |  |

Shifts of the Supply Curve

* Changes in supply are reflected on the Supply Graph as a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Shifts to the right indicate an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in supply
* Shifts to the left indicate a\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in supply

Difference Between A Change in Quantity Supplied and a Change in Supply

* QS - A change in the amount a supplier will produce as a result of a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Reflected as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* S – A change in the amount a supplier can produce as a result of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Reflected as a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Determinants of Supply  
What Causes a Shift?

Effects of Rising Costs

* Input Prices – the cost of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in input prices will cause a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of production
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in input prices will cause incentive to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
    \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Technology

* Technology – ability to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Increases in ability to produce \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Decrease as a result of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Subsidies

* Subsidy – a government \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Increases in ability to produce as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Decrease as a result of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Taxes

* Excise tax – tax on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Increases in ability to produce as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Decrease ability to produce as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Regulation

* Regulation – government intervention in a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Increases in ability to produce\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Decrease in ability to produce \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Future Expectations of Prices

* Expectations – refers to the way \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Negative expectations for the future of a market can cause suppliers to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
    \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Positive speculation for the future of a market can cause suppliers to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
    \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Number of Sellers

* Number of sellers – an increase in the number of sellers \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in sellers, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in production
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in sellers, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in production

Application – Average Supply of Specialty Coffee in Southeast Georgia

* Plot the schedule below, which represents the willingness of stores to purchase Tickle Me Elmo (in the millions per month) during the 1996 holiday season

|  |  |  |  |
| --- | --- | --- | --- |
| Price of Coffee | Early 2000’s | Late 2000s | Coffee Bean Increase |
| $3.00 | 10 | 12 | 6 |
| 2.50 | 8 | 10 | 4 |
| 2.00 | 6 | 8 | 3 |
| 1.50 | 4 | 6 | 2 |
| 1.00 | 2 | 4 | 1 |
| .50 | 0 | 2 | 0 |

Activator – Chapter 6 Section 1

Plot the schedule below, which represents the willingness of stores to purchase Tickle Me Elmo (in the millions per month) during the 1996 holiday season.

\*Formula for determining Surplus/Shortage, QS - QD

|  |  |  |  |
| --- | --- | --- | --- |
| Price | QD | QS | Surplus/Shortage |
| $30 | 0 | 13 |  |
| 25 | 2 | 11 |  |
| 20 | 4 | 9 |  |
| 15 | 6 | 6 |  |
| 10 | 10 | 3 |  |
| 5 | 15 | 0 |  |

Combining Supply and Demand

* Price – the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + A link between \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Determines the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to produce

Defining Equilibrium

* Equilibrium – the point of balance where \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + \_\_\_\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Prices are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Disequilibrium

* Disequilibrium – occurs when the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + \_\_\_\_\_\_\_\_\_\_\_ < \_\_\_\_\_\_\_\_\_\_\_\_\_
  + \_\_\_\_\_\_\_\_\_\_\_ > \_\_\_\_\_\_\_\_\_\_\_\_\_

Excess Demand

* Excess Demand – quantity demanded is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Shortage – not enough of a product to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + \_\_\_\_\_\_\_\_\_\_\_ > \_\_\_\_\_\_\_\_\_\_\_\_\_
  + Shortages force prices \_\_\_\_\_\_\_\_\_\_\_\_\_

Application - The Effects of a Change in Demand  
Plot the schedule below, which represents market supply and demand and the effects of a change in supply.

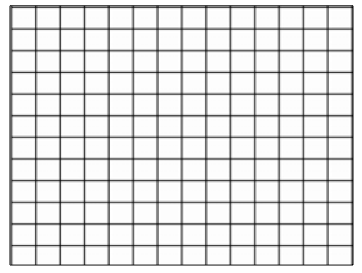
|  |  |  |  |
| --- | --- | --- | --- |
| Price | QD1 | QS | QD2 |
| $50 | 0 | 13 | 3 |
| 40 | 2 | 11 | 5 |
| 30 | 4 | 9 | 9 |
| 20 | 6 | 6 | 13 |
| 10 | 10 | 3 | 17 |
| 5 | 15 | 0 | 25 |

Excess Supply

* Excess Supply – quantity supplied is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Surplus – \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + \_\_\_\_\_\_\_\_\_\_\_\_\_ < \_\_\_\_\_\_\_\_\_\_\_\_\_
  + Surpluses force prices \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Application – The Effects of a Change in Supply

* Plot the schedule below, which represents market supply and demand and the effects of a change in supply.



|  |  |  |  |
| --- | --- | --- | --- |
| Price | QD1 | QS | QS2 |
| $50 | 0 | 13 | 20 |
| 40 | 2 | 11 | 17 |
| 30 | 4 | 9 | 15 |
| 20 | 6 | 6 | 13 |
| 10 | 10 | 3 | 10 |
| 5 | 15 | 0 | 3 |

Law of Supply and Demand

* Law of supply and demand – the price of any good \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Shortages/Surpluses are short-lived market conditions

Supply and Demand Review

|  |  |  |
| --- | --- | --- |
| Event | Effect | Supply Demand Graph |
| 1. The price of designer clothing increases |  |  |
| 2. The price of designer clothing decreases |  |  |
| 3. The popularity of Polo brand clothing increases throughout the country |  |  |
| 4. A machine is invented that allows suppliers to produce clothing more efficiently/inexpensive |  |  |
| 5. Suppliers recognize a willingness by consumers to pay high prices in the market for designer clothing |  |  |
| 6. The cost of Polo clothing doubles (what is effect on Hilfiger brand clothing?) |  |  |
| 7. As a result of profit motive as an incentive, 10 additional companies jump into the market for designer clothing |  |  |
| 8. As a result of bad business, 5 companies drop out of the market for designer clothing |  |  |

Supply, Demand, and Government Policies

* Price Ceiling – government imposed, legal \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + New York introduced rent control in the early 1940s as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + A price ceiling causes a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Price Floor – government imposed, legal \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Minimum wage is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Minimum wage can cause a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Application – Price Ceiling

Scenario: the government places a price ceiling on ice cream cones as a result of complaints and lobbying from the Ice-Cream Eaters of America. The price ceiling is at $2.00 a cone. Graph the following schedule based on the price points and qs/qd.

|  |  |  |
| --- | --- | --- |
| Price of Ice Cream Cones | Quantity Demanded | Quantity Supplied |
| $3 | 100 | 100 |
| 2 | 125 | 75 |

* The government imposes a price ceiling of $2. Because the price ceiling is \_\_\_\_\_\_\_\_\_\_\_\_\_\_ the equilibrium price of $3, the market price equals $2. At this price, \_\_\_\_\_\_\_\_\_\_\_\_ cones are demanded and only \_\_\_\_\_\_\_\_\_\_\_\_\_\_ are supplied, so there is a shortage of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ cones.

Application – Price Floor

Scenario: the government places a price floor on ice cream cones as a result of complaints and lobbying from the National Organization of Ice-Cream Makers. The price floor is at $4.00 a cone. Graph the following schedule based on the price points and qs/qd.

|  |  |  |
| --- | --- | --- |
| Price of Ice Cream Cones | Quantity Demanded | Quantity Supplied |
| $4 | 80 | 120 |
| 3 | 100 | 100 |

The government imposes a price floor of $4, which is above the equilibrium price of $3. Therefore, the market price equals $4. Because \_\_\_\_\_\_\_\_\_\_\_ cones are supplied at this price and only \_\_\_\_\_\_\_\_\_\_\_\_are demanded, there is a surplus of \_\_\_\_\_\_\_\_\_\_\_\_ cones.

A market with a price ceiling

(a) A price ceiling that is not binding (b) A price ceiling that is binding

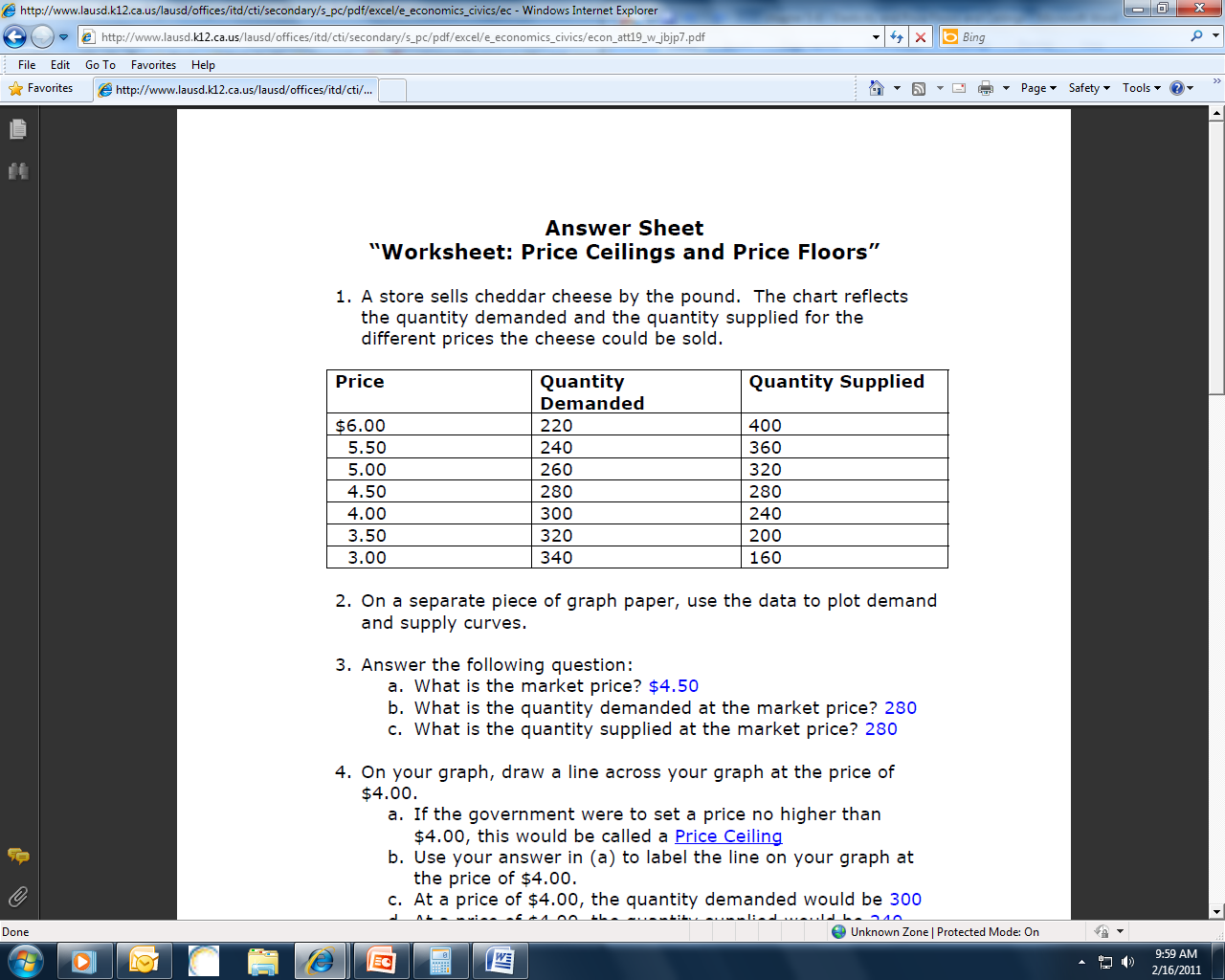
In panel (a), the government imposes a price ceiling of $4. Because the price ceiling is above the equilibrium price of $3, the price ceiling has no effect, and the market can reach the equilibrium of supply and demand. In this equilibrium, quantity supplied and quantity demanded both equal 100 cones. In panel (b), the government imposes a price ceiling of $2. Because the price ceiling is below the equilibrium price of $3, the market price equals $2. At this price, \_\_\_\_\_\_\_\_\_\_\_\_\_ cones are demanded and only \_\_\_\_\_\_\_\_\_\_\_ are supplied, so there is a shortage of \_\_\_\_\_\_\_\_\_\_\_ cones.

Application Price Ceilings and Price Floors

A store sells cheddar cheese by the pound. The schedule reflects the quantity demanded and the quantity supplied for the different prices the cheese could be sold.

$6





3

5

4

Answer the following question:

* + 1. What is the market price? \_\_\_\_\_\_\_\_\_

2

* + 1. What is the quantity demanded at the market price? \_\_\_\_\_\_\_
    2. What is the quantity supplied at the market price? \_\_\_\_\_\_\_\_\_

On your graph, draw a line across your graph at the price of $4.00.

1

1. If the government were to set a price no higher than $4.00,  
    this would be called a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. Use your answer in (a) to label the line on your graph at the   
   price of $4.00.

50 100 150 200 250 300 350 400 450

1. At a price of $4.00, the quantity demanded would be \_\_\_\_\_\_\_\_\_\_
2. At a price of $4.00, the quantity supplied would be \_\_\_\_\_\_\_\_\_\_
3. Is there a surplus or shortage of cheese? \_\_\_\_\_\_\_\_\_\_\_\_\_

On your graph, draw a line across your graph at the price of $5.50.

1. If the government were to set a price no lower than $5.50, this would be called a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. Use your answer in (a) to label the line on your graph at the price of $5.50.
3. At a price of $5.50, the quantity demanded would be \_\_\_\_\_\_\_\_\_\_\_\_\_
4. At a price of $5.50, the quantity supplied would be \_\_\_\_\_\_\_\_\_\_\_\_\_
5. Is there a surplus or shortage of cheese? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Ch. 6 Section 2 – Costs of Production

|  |  |  |
| --- | --- | --- |
| Number of Workers | Total Output | Marginal Product of Labor |
| 0 | 0 | NA |
| 1 | 4 |  |
| 2 | 10 |  |
| 3 | 17 |  |
| 4 | 23 |  |
| 5 | 28 |  |
| 6 | 31 |  |
| 7 | 32 |  |
| 8 | 31 |  |

* 1. What is the marginal product of labor from one laborer to two?\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  2. What is the marginal product of labor from two laborers to three? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  3. At what number of laborers does the marginal product of labor start to decline? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  4. At what number of laborers does the firm experience negative marginal product of labor? \_\_\_\_\_\_\_\_\_\_\_

Marginal Returns

* Increasing marginal returns – Increases in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Diminishing marginal returns – Additional workers \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Negative Marginal Returns – Adding additional workers \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Production Costs

* Fixed costs – a cost that does not \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Variable costs – costs that \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Total cost – \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Marginal cost – additional cost of producing \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Application – The Costs of Production

|  |  |  |
| --- | --- | --- |
| Number of Workers | Total Product | Marginal Product of Labor |
| 0 | 0 |  |
| 1 | 7 |  |
| 2 | 20 |  |
| 3 | 38 |  |
| 4 | 62 |  |
| 5 | 90 |  |
| 6 | 110 |  |
| 7 | 129 |  |
| 8 | 138 |  |
| 9 | 144 |  |
| 10 | 148 |  |
| 11 | 145 | * 1. At what number of laborers does the firm experience diminishing marginal returns? \_\_\_\_\_\_\_\_\_\_\_\_\_\_   2. At what number of laborers does the firm experience negative marginal returns? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| 12 | 135 |  |