Test # 1 Practice spring 2021

1. In the housing market prices often are inflexible downward. Show in a supply/demand diagram how this can lead to a surplus.

2. Given the following reservation prices, what price will maximize the quantity sold? Why?

Bids to buy $20 $20 $20 $25 $30 $30 $30 $30 $35 $35

Bids to sell $15 $15 $20 $20 $25 $25 $25 $30 $30 $30

3. Use a supply/demand diagram to show what happens to print media sales when more people get their news online.

5. Use a supply/demand diagram to show what happened when the US Postal Service had to pay its workers more and more people used email

6. What will be the market clearing price if the following reservation prices exist for a particular used textbook? Please show your work, including a supply/demand diagram)

And, what will be needed for the market clearing price to occur?

Bids to buy $10 $10 $13 $14 $14 $16 $16 $16 $20

Bids to sell $9 $9 $9 $13 $13 $14 $16 $16 $17

7. You are watching the news and learn that the drought is hurting the California almond harvest. Using a supply/demand diagram, show what you expect to happen to the price and demand for almonds.

8. If marijuana sales are made legal, what do you expect to happen in the market? Please show with a supply/demand diagram, illustrating clearly the effects.

9. Given the following information, identify which goods are substitutes and which goods are complements and explain briefly why.

Good A B C

Initial price $4.00 $3.00 $6.00

Later price $6.00 $3.00 $6.00

Initial quantity 100 200 300

Later quantity 50 100 500

10. If there is a shortage of toilet paper during a pandemic, should there be a price ceiling set in order to prevent price gouging? Explain why or why not using a supply/demand diagram. (No single correct answer here.)

11. What shifts would you expect in the stock market for shares of a company that makes toilet paper during the pandemic?

12.Suppose that, as part of an international trade agreement, the U.S. government reduces the tariff on imported coffee. Will this affect the supply or the demand for coffee? Why? Which determinant of demand or supply is being affected? Show graphically with before- and after-curves on the same axes. How will this change the equilibrium price and quantity of coffee? Explain your reasoning.

**13.**  Suppose the National Institutes of Health publishes a study finding that coffee drinking reduces the probability of getting colon cancer. How do you imagine this will affect the market for coffee? Why? Which determinant of demand or supply is being affected? Show graphically with before- and after-curves on the same axes. How will this change the equilibrium price and quantity of coffee? Explain your reasoning.

**14.**  Combine questions 12 and 13. Suppose that the U.S. government reduces the tariff on imported coffee, and a reputable study is published indicating that coffee drinkers have lower rates of colon cancer. What will the combined impact be on the equilibrium price and quantity of coffee? Explain your reasoning and show graphically.

15.. Give an example (not used in class) in which you would expect market clearing ***not*** to occur. Explain why.

16. Given the following information about individual people’s willingness to buy and willingness to sell (each is the maximum they are willing to pay or the minimum they need to sell), what price will maximize the quantity sold. Please show your work.

Bids to buy  $4. $4. $4.  $5.  $5. $6. $7 $8. $8 $9

Bids to sell.  $3. $5. $5. $5. $6 $7. $7 $7 $8 $8

*17.*

Describe what will happen in the supply/demand diagrams (any shifts and changes in quantity demanded or supplied) and why this will occur in the market for dog food when manufacturers are required to use more expensive metal in their cans without the chemical lead.

18. How does the stock market differ from the housing market when it comes to market clearing?  Explain why.

*19.* Which two goods in this example are complements?  Explain why

Good                           A                                  B                                  C

Initial price                   $50                                 $40                                 $60

Later price                    $50                                 $30                                 $60

Initial quantity               100                                90                                   200

Later quantity.               110                               100                                  160*This element is a more accessible alternative to drag & drop reordering. Press Enter or Space to move this question.*

**20.** If there is a surplus of milk produced by dairy farmers, should there be a price floor to keep the dairy farmers in business? List the reasons for and reasons against this proposal.

*21.* In the stock market, describe what will happen to the supply and demand curves and the price and quantity for the stock of a corporation producing an online search engine when the federal government initiates an antitrust lawsuit against the corporation.

*22.* If the US government increases a tariff on aluminum used in the production of cans for soft drinks, how will this affect the soft drink market? Describe any changes in the supply or demand curves for this product and explain what will happen to prices and quantity.

*23.* A friend who is new to economics asks you to explain the following

During the pandemic there was a shortage of hand sanitizer. Th price rose which caused fewer people to buy hand sanitizer. So how can we say there was a shortage if fewer people were buying hand sanitizer?

*24.* A friend says the that he is wealthy because he now has a job with a good salary. Is he technically correct? Why?

25. Is income or wealth more equally distributed in the U.S.? Why? Which has a higher Gini coefficient for its distribution?

26. Why is it important to know data for the top 0.01% when looking at the distribution of wealth but not for the distribution of income?

27. Is the US distribution of wealth or income more equal in comparison with the distribution of income or wealth in other countries?

28. Given the following information about three countries, what does it tell you?

 Income Gini. Wealth Gini

Country A 0.4 0.6

Country B 0.3 0.7

Country C 0.6 0.8

29. A friend says that the distribution of income in the US has always been getting more unequal. Is he correct? Why?

30. What is the Gini coefficient for wealth and for income the households of students in this course? You don’t have the data to calculate it, but what would you need to do to find it? What do you expect the coefficients to tell you?

31. A friend complains that she can’t find a used copy of the expensive science textbook she needs for a course. Based on you study in this course, you recognize the existence of a shortage. How would you use your understanding of supply and demand to estimate the size of this shortage?

32. Based on your work In the course with supply, demand and markets, list the ways in which the college eliminate the shortage in parking spaces once the college reopens for on campus courses. Which would be most effective and why?