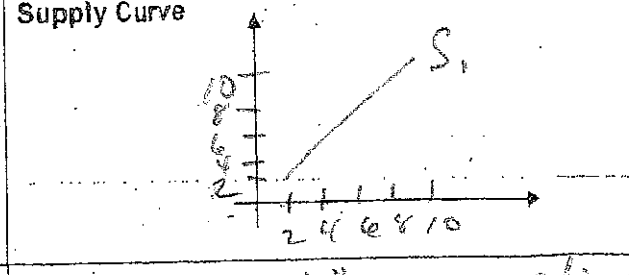
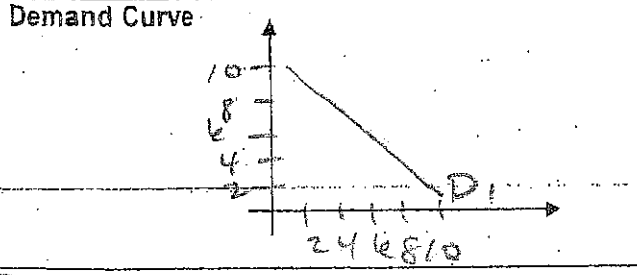


Key

DEMAND		SUPPLY																									
Demand Schedule	<table border="1"> <thead> <tr> <th>Price</th> <th>Quantity</th> </tr> </thead> <tbody> <tr><td>2</td><td>10</td></tr> <tr><td>4</td><td>8</td></tr> <tr><td>6</td><td>6</td></tr> <tr><td>8</td><td>4</td></tr> <tr><td>10</td><td>2</td></tr> </tbody> </table>	Price	Quantity	2	10	4	8	6	6	8	4	10	2	Supply Schedule	<table border="1"> <thead> <tr> <th>Price</th> <th>Quantity</th> </tr> </thead> <tbody> <tr><td>2</td><td>2</td></tr> <tr><td>4</td><td>4</td></tr> <tr><td>6</td><td>6</td></tr> <tr><td>8</td><td>8</td></tr> <tr><td>10</td><td>10</td></tr> </tbody> </table>	Price	Quantity	2	2	4	4	6	6	8	8	10	10
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Demand is quantity demanded at different prices.

Supply is quantity supplied at diff. prices

The Law of Demand: As price goes up, quantity demanded goes down.

The Law of Supply: As price goes up, quantity supplied goes up.

What causes a "change in quantity demanded"? (ΔQD)
Price

What causes a "change in quantity supplied"? (ΔQS)
Price

- What causes a "change in demand"? (ΔD)
- ① Population Changes
 - ② Income Changes
 - ③ Tastes/Preferences/Fads
 - ④ Substitute/Complimentary Goods
 - ⑤ Future expectations of prices.

- What causes a "change in supply"? (ΔS)
- ① Input Costs - Raw materials, Variable Costs, Fixed, Intermediate
 - ② Technology Changes
 - ③ Government Influence
 - ④ Global Economy
 - ⑤ Future Expectations of prices - May hold supply to sell later at higher prices.

- ⑥ # of Suppliers
- ⑦ Natural Disaster or other event that affects production.

CHAPTER 8 MASTERY WORKSHEET

Name _____

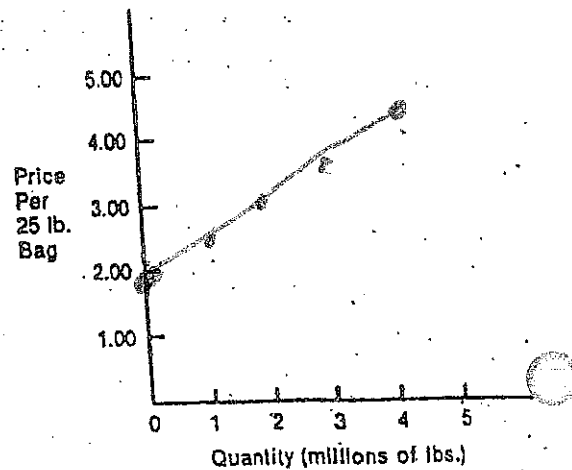
Class _____ Date _____

Section 4. THE LAW OF SUPPLY

A large potato crop has just been harvested and the potato farmers must decide what to do. They can sell all of their potatoes or, instead, store them and try to sell them for higher prices later in the year. Look at the supply schedule below and transfer the information contained in it to the graph on the right. Label the supply curve S_1 .

Supply Schedule of 25 lb. bags of potatoes.

Price Per Bag	Quantity Supplied (millions of lbs.)
\$2.00	0
2.50	1
3.00	2
3.50	3
4.00	4
4.50	5



- Why are the farmers unwilling to supply any potatoes at a price below \$2.50 per bag?

Price too low to make profit.

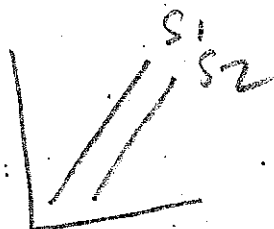
- Explain why they will supply four million pounds of potatoes at \$4.00 per 25 lb. bag.

Price high enough to make a profit.

- If prices were to rise to \$5.00 per bag how might that affect the number of potato farmers?

↑ Suppliers enter market.

- Assume that improved potato seeds increase the yield per acre by 20 percent at no extra cost. Draw in the new supply curve that would result from this situation and label it S_2 .



Name _____

Class _____

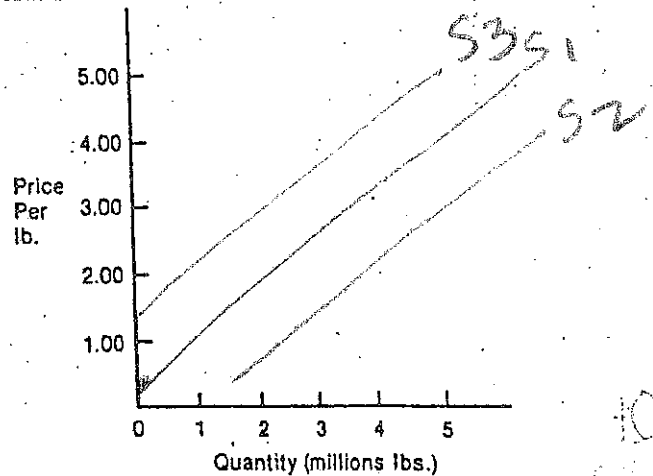
Date _____

Section 5. CHANGES IN SUPPLY

A number of dairy farmers are bringing their butter to market. The supply schedule below reflects how much of their butter they would be willing to sell at a variety of prices. Look at the supply schedule and transfer the information contained in it to the graph on the right. Label the supply curve S_1 .

Supply Schedule
for Butter

Price Per Pound	Quantity Supplied (millions lbs.)
.50	0
1.00	1
1.50	2
2.00	3
2.50	4
3.00	5



1. How does the supply curve sloping upward to the right reflect the law of supply?
2. Suppose that a new technology makes it possible to produce butter at a much lower cost. Draw the new supply curve on the graph that would result from this situation and label it S_2 .
3. Suppose that the cost of buying or renting farmland increases greatly. Draw the new supply curve on the graph that would result from this situation and label it S_3 .
4. Which of the three S curves would best reflect a decline in the number of dairy farmers brought about by declining demand for butter? Explain why.

① at higher prices suppliers are willing to supply more.

②

③

④

$S_3 = \downarrow \#$ Suppliers

Reasons for Changes in Supply

Part A

Read the eight newspaper headlines in Figure 13.2, and record the impact, if any, of each event on the supply of cars. Use the first column to the right of the headline to show whether the event will cause a change in supply. Use the next column to record whether the change is an increase or a decrease in supply. In the third column, decide whether the supply curve shifts left or right. Finally, write the letter for the new supply curve. Use Figure 13.1 to help you. Always start at curve B, and move only one curve at a time. Two headlines imply that the supply of cars does not change.

Figure 13.1
Supply of Foreign and Domestic Cars

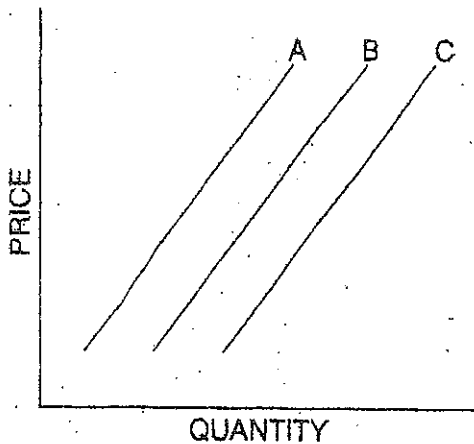


Figure 13.2

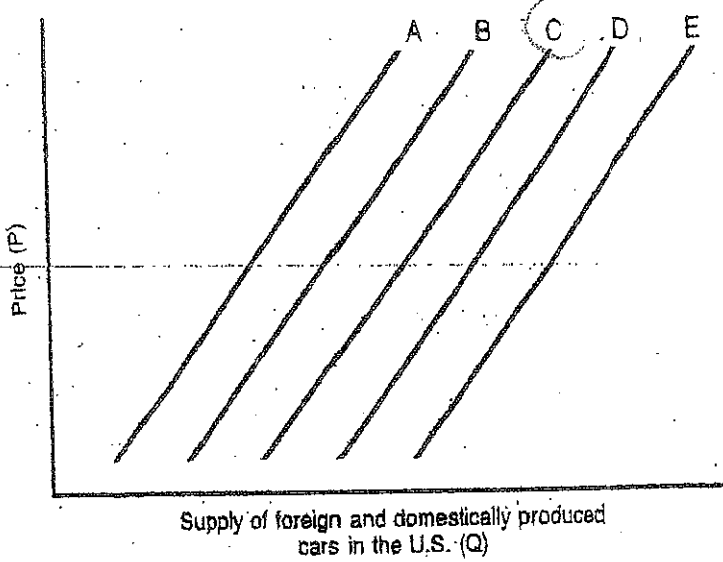
Headline	Supply Shift? (Y/N)	If Supply Shifts, Inc/Dec?	Curve Shifts Left/Right?	New Curve
1. Auto Workers' Union Agrees to Wage Cuts	Y	Inc.	R	C
2. New Robot Technology Increases Efficiency	Y	Inc.	R	C
3. Nationwide Auto Strike Began at Midnight	Y	Dec.	L	A
4. New Import Quotas Reduce Foreign Car Imports	Y	Dec.	L	A
5. Cost of Steel Rises	Y	Dec.	L	A
6. Auto Producer Goes Bankrupt; Closes Operation	Y	Dec.	L	A
7. Buyers Reject New Models	N			B
8. National Income Rises 2%	N			B

From *Master Curriculum Guide in Economics: Teaching Strategies for High School Economics Courses* (New York: National Council on Economic Education, 1985), p. 69

(R)

REASONS FOR CHANGE IN SUPPLY

Name _____ Class _____



Read the following seven newspaper headlines. In each case, decide if the event will cause any change in supply of cars. If so, determine if it is an increase or decrease, and write the correct answer. Begin at curve C. If you think headline 1 means there will be a decrease in supply, write "decrease" in the first blank and "B" in the second blank; move to curve B to do headline 2. If you think supply will increase, write "increase" and "D" in the blanks for headline 2; move to curve "D" to do headline 3.

Move only one curve at a time. Do not skip from say A to C even if you think the headline means there will be a large change in supply. Do not go beyond the five curves. If you are at A and the next headline implies a decrease in supply, you goofed somewhere. There is one headline which implies that the supply of cars does not change.

- 1 AUTO WORKERS UNION AGREES TO WAGE AND FRINGE CUTS
Supply ↑ Curve D
- 2 NEW ROBOT TECHNOLOGY INCREASES EFFICIENCY
Supply ↑ Curve E
- NATIONWIDE AUTO STRIKE BEGAN AT MIDNIGHT
Supply ↓ Curve D

- 4 NEW AUTO IMPORT QUOTAS REDUCE FLOW OF FOREIGN CARS
Supply ↓ Curve C
- 5 COST OF STEEL RISES
Supply ↓ Curve B
- 6 AUTO PRODUCER GOES BANKRUPT, CLOSES OPERATION
Supply ↓ Curve A # of suppliers
- 7 BUYERS REJECT NEW MODELS
Supply — Curve A cars already built/supplied

Optional bonus: Categorize each change in supply according to the reason that affected supply. Write the number of the headline next to the reason for the change in supply. In some cases, more than one headline could be matched to a reason.

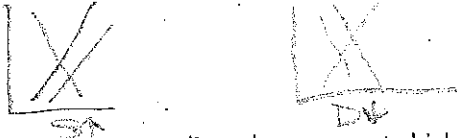
- 1, 5 A change in the cost of production *input costs*
- 2 A change in technology
- 3 Natural disaster/other event that causes decrease in production
- 4 Government policies
- 6 # of sellers

7+ all else fails graph it out.

Indicate what happens to the price and quantity in each of the situations below. (Circle the correct answer)

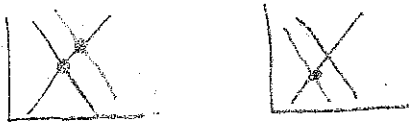
A. Improvements in technology reduce the costs of making blue jeans.

- a. Will this affect my supply or demand for blue jeans? Supply \uparrow Supply \downarrow Demand \uparrow Demand \downarrow
 b. Market for Jeans: $S \uparrow$ Price \uparrow Price \downarrow Quantity \uparrow Quantity \downarrow
 c. Market for Khaki Pants: $D \downarrow$ Price \uparrow Price \downarrow Quantity \uparrow Quantity \downarrow



B. Assume that a new diet where you eat chicken for both lunch and dinner becomes the latest diet fad.

- a. Will this affect my supply or demand for chicken? Supply \uparrow Supply \downarrow Demand \uparrow Demand \downarrow
 b. Market for Chicken: $D \uparrow$ Price \uparrow Price \downarrow Quantity \uparrow Quantity \downarrow
 c. Market for Hamburgers: $D \downarrow$ Price \uparrow Price \downarrow Quantity \uparrow Quantity \downarrow



C. Assume that a report comes out that shows that I-Pods give you brain cancer.

- a. Will this affect my supply or demand for Ipods? Supply \uparrow Supply \downarrow Demand \uparrow Demand \downarrow
 b. Market for I-pods: $D \downarrow$ Price \uparrow Price \downarrow Quantity \uparrow Quantity \downarrow



D. Government imposes a 5% tax on cell phone production:

- a. Will this affect my supply or demand for cell phones? Supply \uparrow Supply \downarrow Demand \uparrow Demand \downarrow
 b. Market for Cell Phones: $S \downarrow$ Price \uparrow Price \downarrow Quantity \uparrow Quantity \downarrow



E. A popular late night talk show host discusses the health benefits of not smoking and has several celebrity guests promote this idea with entertaining non smoking ads. This has convinced a significant number of people to quit smoking.

- a. Will this affect my supply or demand for cigarettes? Supply \uparrow Supply \downarrow Demand \uparrow Demand \downarrow
 b. Market for Cigarettes: $D \downarrow$ Price \uparrow Price \downarrow Quantity \uparrow Quantity \downarrow
 c. Market for stop smoking patches: $D \uparrow$ Price \uparrow Price \downarrow Quantity \uparrow Quantity \downarrow

F. The price of computer chips decreases significantly, enabling manufacturers of hard drives to produce more hard drives.

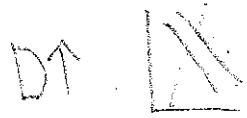
- a. Will this affect my supply or demand for hard drives? Supply \uparrow Supply \downarrow Demand \uparrow Demand \downarrow
 b. Market for Hard drives: Price \uparrow Price \downarrow Quantity \uparrow Quantity \downarrow



$D \uparrow$	$P \uparrow$	$Q \uparrow$	
$D \downarrow$	$P \downarrow$	$Q \downarrow$	
$S \uparrow$	$P \downarrow$	$Q \uparrow$	2a
$S \downarrow$	$P \uparrow$	$Q \downarrow$	

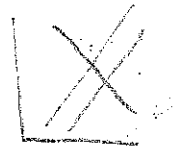
G. A national prescription lens association engages in a major ad campaign to convince people that glasses that automatically darken with exposure to sunlight are much healthier for your eyes than glasses that do not. The campaign has been very successful.

- a. Will this affect my supply or demand for darkening lenses? Supply ↑ Supply ↓ Demand ↑ Demand ↓
 b. Market for darkening lenses Price ↑ Price ↓ Quantity ↑ Quantity ↓



H. Swimming pool service providers can service more pools this year than last year due to an advanced sweeper that automatically adjusts chemicals in the water while sweeping the pool.

- a. Will this affect my supply or demand for pool services? Supply ↑ Supply ↓ Demand ↑ Demand ↓
 b. Market for pool services Price ↑ Price ↓ Quantity ↑ Quantity ↓



I. A news report recently announced that baby boomers planned to sell their homes in the suburbs and buy condos in the city sometime in the next three years.

- a. Will this affect my supply or demand for condos in the city? Supply ↑ Supply ↓ Demand ↑ Demand ↓
 b. Market for city condos Price ↑ Price ↓ Quantity ↑ Quantity ↓



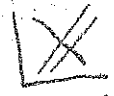
J. The price of movie tickets increases significantly.

- a. Will this affect my supply or demand for DVD rentals? Supply ↑ Supply ↓ Demand ↑ Demand ↓
 b. Market for DVD rentals Price ↑ Price ↓ Quantity ↑ Quantity ↓



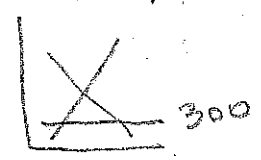
K. To encourage energy conservation, government will give companies a \$10 credit on each residential solar panel that they produce. Companies can deduct the credit from their taxes.

- a. Will this affect my supply or demand for solar panels? Supply ↑ Supply ↓ Demand ↑ Demand ↓
 b. Market for solar panels Price ↑ Price ↓ Quantity ↑ Quantity ↓



L. The Government sets a maximum price of \$300 on rent prices in Marietta, GA.

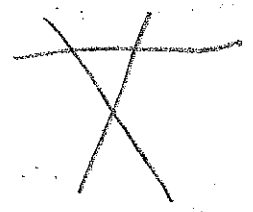
- a. What is this called? Price Ceiling
 b. Will this create a shortage or a surplus? Shortage



Rent of \$300 below market equilibrium.

M. The government sets a minimum wage of \$10 per hour for fast food workers/

- a. What is this called? Price Floor
 b. Will it create a shortage or surplus? Surplus of workers



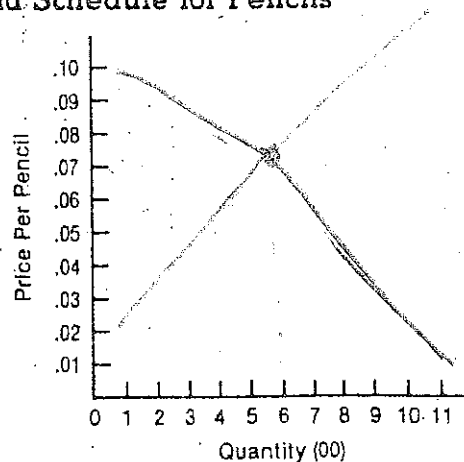
Price Floor - Surplus of workers

Section 6. SUPPLY AND DEMAND TOGETHER

In Chapter 8, you learned about supply and demand. How do the market forces of supply and demand determine price? The following exercise will help you to understand this concept. Study the combined supply and demand schedule below and then answer the questions that follow.

Combined Supply and Demand Schedule for Pencils

Quantity Demanded	Price Per Pencil	Quantity Supplied
300	.10	900
400	.09	800
500	.08	700
600	.07	600
700	.06	500
800	.05	400
900	.04	300
1000	.03	200
1100	.02	100

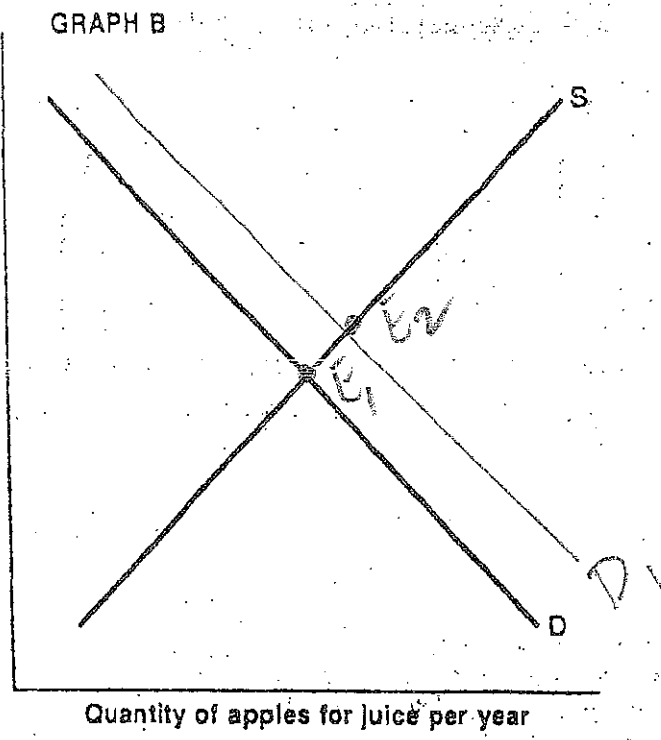
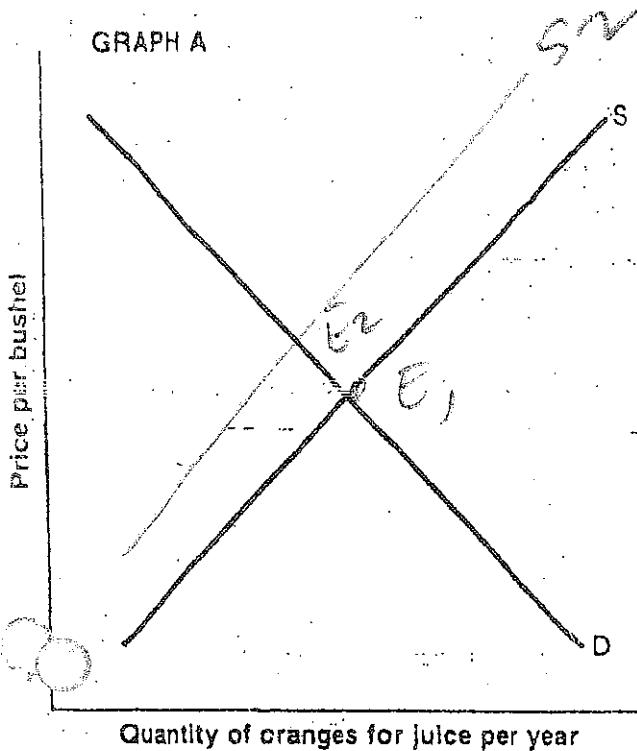


- Transfer the information from the schedule to the graph. Label the demand curve D_1 and the supply curve S_1 .
- How does the information on the demand schedule and the demand curve illustrate the law of demand? as price ↑, quantity ↓
- How does the information on the supply schedule and the supply curve illustrate the law of supply? as P ↑, S ↑
- Why will the pencils sell for .07 each? Equilibrium b/w S & D = market price
- Explain why at a price of .10 per pencil a surplus will develop in the market. Not enough demand at that price.
- Explain why at a price of .02 per pencil a shortage of pencils will develop in the market. More people will buy at the low price and create a shortage as demand exceeds supply.

Handout 7-3

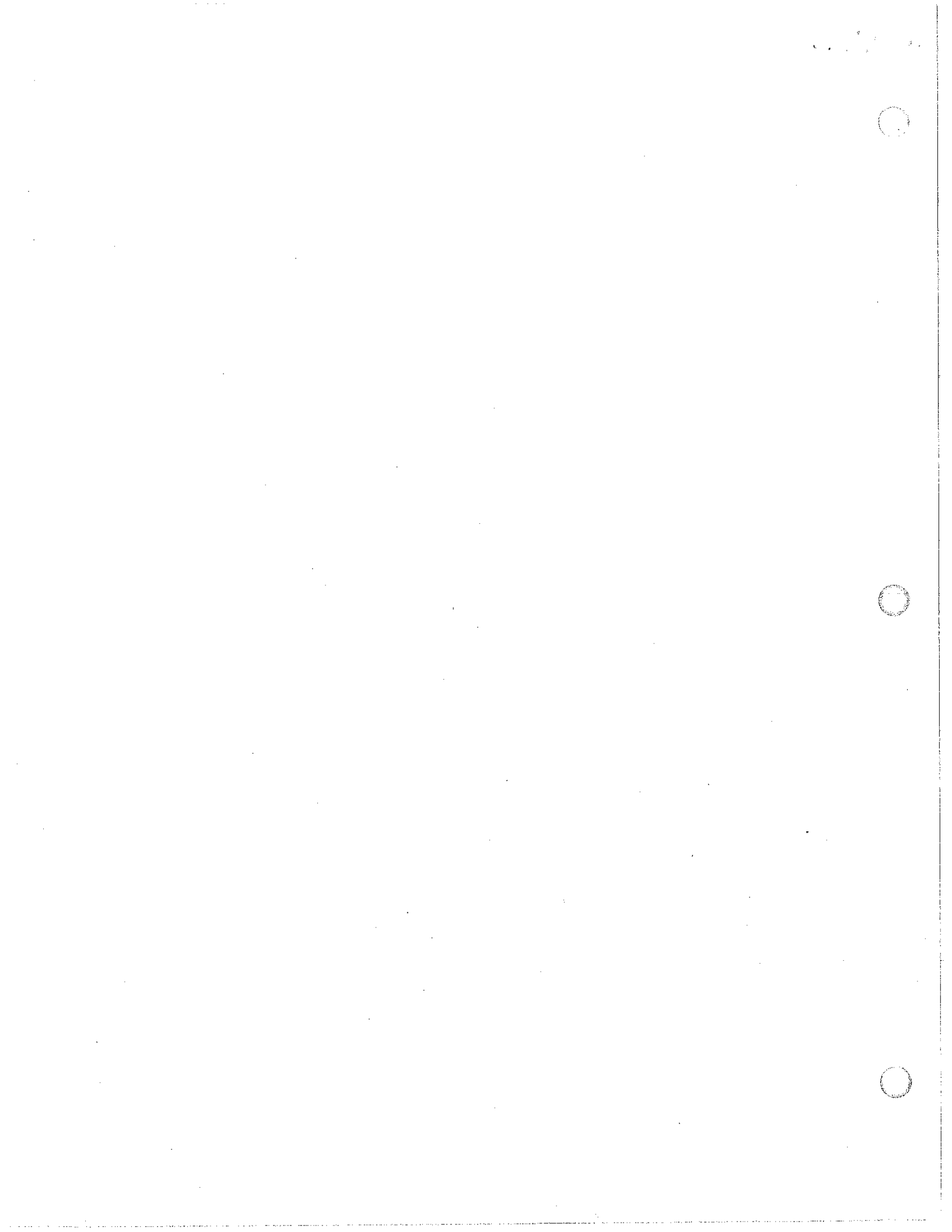
EQUILIBRIUM PRICE AND QUANTITY

Name _____ Class _____



A frost has killed much of the expected crop of juice oranges in Florida. Refer to the graphs above to answer the following questions.

- 1 Circle the correct words:
There will be a(n) increase/~~decrease~~ in the supply/~~demand~~ of oranges.
- 2 On graph A, draw the new demand or supply curve and label it *D*, or *S*. For example, if you think the result of the frost will be an increase in the demand for oranges, draw a new demand curve showing this result; label the curve *D*₁.
- 3 Circle the correct words:
There will be a(n) decrease/~~increase~~ in the quantity of oranges demanded/~~supplied~~.
- 4 Circle the correct words:
There will be a(n) increase/~~decrease~~ in the demand/~~supply~~ of apples, as a result of the frost's effect on the juice orange crop.
- 5 On graph B, draw the new demand or supply curve in the apple market and label it *D*, or *S*. For example, if you think the supply of apples will increase, draw a new supply curve; label it *S*₁.
- 6 Circle the correct words:
There will be a(n) increase/~~decrease~~ in the quantity of apples demanded/~~supplied~~.
- 7 What will happen to:
 - a The market price of apples? ↑
 - b The market price of oranges? ↑
 - c The quantity of oranges bought and sold? ↓
 - d The quantity of apples bought and sold? ↑



cartel

a formal organization of producers that agree to coordinate prices and production

ceteris paribus

latin: meaning all other things held constant

collusion

an agreement among firms to divide the market, set prices or limit production

commodity

the product is the same no matter who produces it

complimentary goods

two goods that are bought and used together

corporation

a legal entity owned by individual stockholders

demand

the desire to own something and the ability to pay for it

dividend

the portion of corporate profits paid out to stockholders

economy of scale

factors that cause a producers' average cost per unit to fall as output rises

elasticity of demand

how consumers react to a change in price

elasticity of supply

the way Q_s reacts to a change in price

equilibrium

$Q_d = Q_s$



income effect

the change in consumption resulting from change in real income

inferior good

a good that consumers demand less of when their incomes increase (store brands)

law of demand

consumers buy more of a good when its price decreases and less when it increases

law of supply

tendency of suppliers to offer more of a good at a higher price

liability

legally bound obligation to pay debts

monopolistic competition

a market structure in which many companies sell products that are similar but not identical

monopoly

a market dominated by a single seller (water company, USPS)

non-price competition

a way to attract customers through a style, service or location but not at a lower price

normal good

a good that consumers demand more of when their incomes increase (name brands)

oligopoly

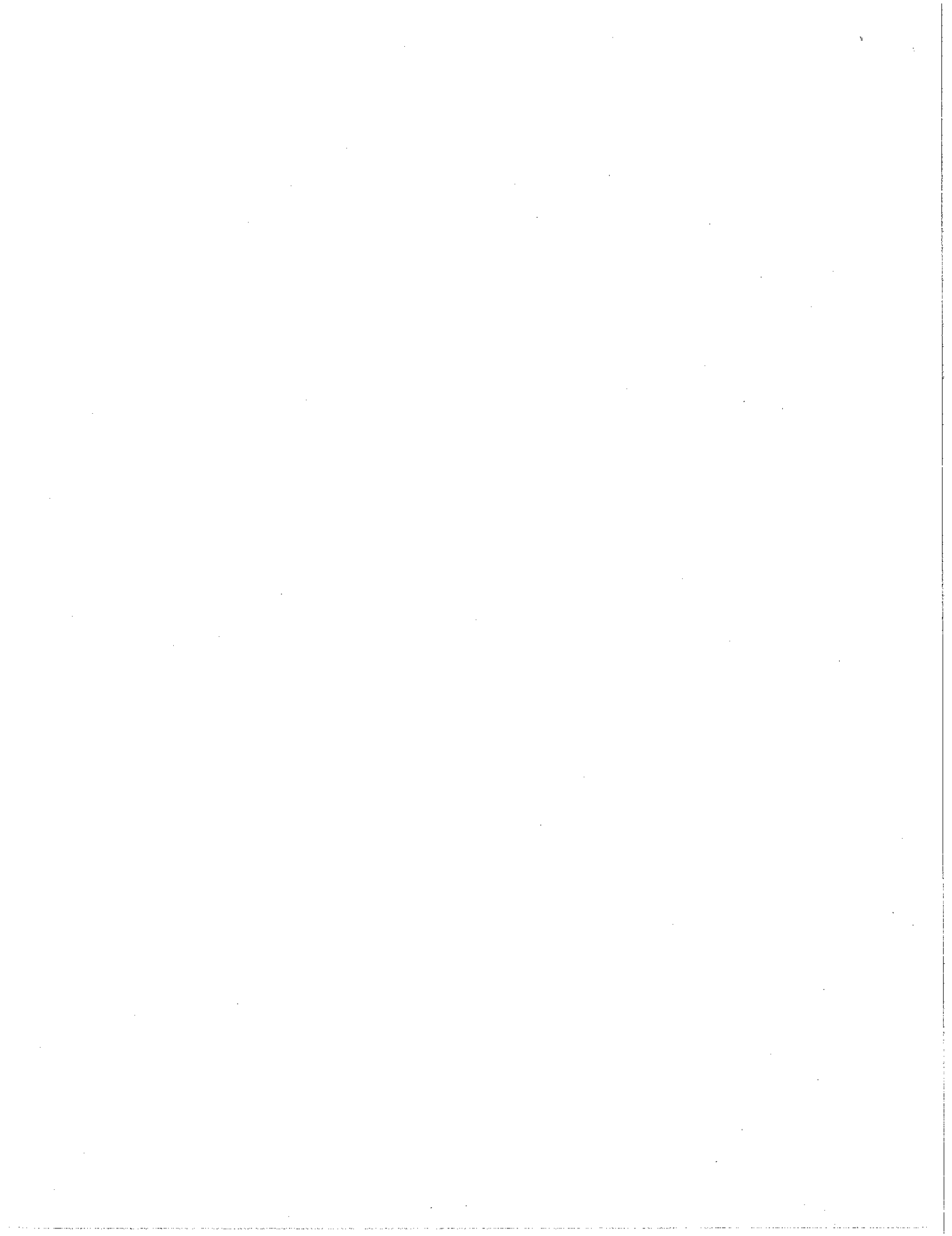
a market structure in which a few large firms dominate a market

partnership

a business organization owned by two people

perfect competition

a market structure in which a large number of firms all produce the same product



price ceiling

the maximum amount an item will cost

price floor

the minimum amount for a good or service

shortage

when a good or service is unavailable or $Q_d > Q_s$

sole proprietorship

a business owned and operated by a single person

stock

a certificate of ownership in a corporation

subsidy

a government payment that supports a business or market

substitution effect

when consumers react to an increase in a good's price by consuming less of a good

substitution goods

goods used in place of each other

supply

the amount of goods available

surplus

too much of a good or service $Q_s > Q_d$

