**Principles of Microeconomics**

**Demand and Supply Exercise**

The following exercise is designed to give you practice using the concepts of demand and supply.

You will have 8-10 minutes to complete question 1 on your own. When time is called, you will have 5 minutes to pair up with a classmate and compare your answers, resolving conflicts and enhancing incomplete answers. Students will take turns presenting the answers to each part of the problem and seeking feedback from their partners. The student in the pair that has the first letter of their last name closer to Z in the alphabet will present his/her answers to parts a(i), a(ii), a(v), and b, seeking feedback from his/her partner. The partner will then present his/her answers for parts a(iii), a(iv), a(vi), and c, again seeking feedback.

Question 1

1. Assume that each of the markets below is initially in equilibrium. Then for each market below, suppose that the indicated event occurs. Illustrate the effect of each event in a diagram and indicate the effects on the equilibrium price and quantity.

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|  | **Market** | **Event** |
| i. | Peanut butter | The price of jelly increases. |
| ii. | Wheat | Midwest floods destroy 50% of the wheat crop. |
| iii. | Instant ramen | A rise in average family incomes. |
| iv. | Corn | The price of fertilizer decreases. |
| v. | Hybrid automobiles | Technological advances reduce costs of producing high-quality hybrid cars ***and*** there is an increase in fuel prices. |
| vi. | iPhones | Due to free trade agreements, the components used to manufacture iPhones can be purchased more cheaply. There is also a decrease in average household incomes. |

1. Explain the adjustment process in the peanut butter market after the shock to the new equilibrium.
2. Explain the adjustment process in the corn market after the shock to the new equilibrium.