

EC111 Introduction to Economics: Class Exercises 2 (week 4)

- 1) (a) Explain the distinction between an increase in demand at any given price (i.e. a shift of the demand curve) and an increase in the quantity demanded following a change in price (i.e. a movement along the demand curve).
- (b) Show in a diagram the effect on the demand curve, the supply curve and the equilibrium price and quantity of pork of
- (i) a fall in the price in beef
 - (ii) an increase in the price of animal feeding stuffs
 - (iii) an increase in consumers' income
 - (iv) an innovation in the production of pork.
- 2) In the market for apples, quantity demanded is given by $Q^D = 100 - 8P + 0.5Y$ and quantity supplied by $Q^S = -10 + 4P - 4W$, where P is the price of apples, Y is total consumers' income and W is the wage rate. Suppose also that initially $Y = 300$ and $W = 10$.
- a) Draw the supply and demand curves and find the equilibrium price and quantity.
 - b) Suppose now that Y goes up to 420. Find the new equilibrium price and quantity.
 - c) Suppose that (in addition to the rise in income) the wage rises to 16. Find the new equilibrium price and quantity.
 - d) The government is concerned that the price of apples is now too high and wants to maintain a price no higher than $P = 30$. Indicate various ways in which the government can achieve this.

Key terms to review and understand:

Substitutes; complements

Ceteris paribus

Elasticity

Normal good

Tax incidence

Tariff