

**Demand, Supply, and Market Equilibrium**

**INSTRUCTIONAL OBJECTIVES**

After completing this chapter, students should be able to:

1. Explain who and what demand and supply represent.
2. Differentiate between demand and quantity demanded; and supply and quantity supplied.
3. Graph demand and supply curves when given demand and supply schedules.
4. State the Law of Demand and the Law of Supply, and explain why price and quantity demanded are inversely related, and why price and quantity supplied are directly related.
5. List the major determinants of demand, and explain how a change in each will affect the demand curve.
6. List the major determinants of supply, and explain how a change in each will affect the supply curve.
7. Explain the concept of equilibrium price and quantity.
8. Illustrate graphically equilibrium price and quantity.
9. Explain the rationing function of prices.
10. Define productive and allocative efficiency, and explain how competitive markets achieve them.
11. Explain and graph the effects of changes in demand and supply on equilibrium price and quantity, including simultaneous changes in demand and supply.
12. Define price ceilings and price floors, and provide examples.
13. Graph and explain the consequences of government-set prices.

**Mr. Corner**  
**Economics (H)**  
**Chapter 3 Study Questions**

**HOMEWORK**

**Directions.** Read Chapter 3 and complete the following. Your responses must be typed, printed out, and placed in the homework section of your binder.

**Terms.** For each term listed below, provide 1) a textbook definition, and 2) a one-sentence explanation of its importance in economics.

- |                                 |                                 |
|---------------------------------|---------------------------------|
| 1. Demand                       | 13. Supply                      |
| 2. Law of Demand                | 14. Law of Supply               |
| 3. Diminishing Marginal Utility | 15. Change in Supply            |
| 4. Income Effect                | 16. Change in Quantity Supplied |
| 5. Substitution Effect          | 17. Equilibrium Price           |
| 6. Demand Curve                 | 18. Equilibrium Quantity        |
| 7. Normal Goods                 | 19. Surplus                     |
| 8. Inferior Goods               | 20. Shortage                    |
| 9. Substitute Goods             | 21. Productive Efficiency       |
| 10. Complementary Goods         | 22. Allocative Efficiency       |
| 11. Change in Demand            | 23. Price Ceiling               |
| 12. Change in Quantity Demanded | 24. Price Floor                 |

**Questions.** Respond to each question in a short answer format (e.g. a topic sentence and a two to three sentences of explanation – or more when required).

1. Explain the law of demand. Why does a demand curve slope downward? How is a market demand curve derived from individual demand curves?
2. What are the determinants of demand? What happens to the demand curve when each of these determinants changes? Distinguish between a change in demand and a change in the quantity demanded, noting the cause(s) of each.
3. What effect will each of the following have on the demand for small automobiles such as the Mini Cooper and Smart car?
  - a. Small automobiles become more fashionable.
  - b. The price of large automobiles rises (with the price of small autos remaining the same).
  - c. Income declines and small autos are an inferior good.
  - d. Consumers anticipate the price of small autos will greatly come down in the near future.
  - e. The price of gasoline substantially drops.
4. Explain the law of supply. Why does the supply curve slope upward? How is the market supply curve derived from the supply curves of individual producers?
5. What are the determinants of supply? What happens to the supply curve when each of these determinants changes? Distinguish between a change in supply and a change in the quantity supplied, noting the cause(s) of each.

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6. What effect will each of the following have on the supply of automobile tires?
  - a. A technological advance in the methods of producing tires.
  - b. A decline in the number of firms in the tire industry.
  - c. An increase in the price of rubber used in the production of tires.
  - d. The expectation that the equilibrium price of auto tires will be lower in the future than it is currently.
  - e. A decline in the price of large tires used for semi-trucks and earth hauling rigs (with no change in the price of auto tires).
  - f. The levying of a per-unit tax in each auto tire sold.
  - g. The granting of a 50-cent-per-unit subsidy for each auto tire produced.
7. How will each of the following changes in demand and/or supply affect equilibrium price and equilibrium quantity in a competitive market; that is do price and quantity rise, fall, remain unchanged, or are the answers indeterminate because they depend on the magnitudes of the shifts? Use supply and demand diagrams to verify your answers.
  - a. Supply decreases and demand is constant.
  - b. Demand decreases and supply is constant.
  - c. Supply increases and demand is constant.
  - d. Demand increases and supply increases.
  - e. Demand increases and supply is constant.
  - f. Supply increases and demand decreases.
  - g. Demand increases and supply decreases.
  - h. Demand decreases and supply decreases.
8. In 2001 an outbreak of foot-and-mouth disease in Europe led to the burning of millions of cattle carcasses. What impact do you think this had on the supply of cattle hide prices, the supply of leather goods, and the price of leather goods?
9. Use two market diagrams to explain how an increase in state subsidies to public colleges might affect tuition and enrollments in both public and private colleges.
10. Critically evaluate: “In comparing the two equilibrium positions in Figure 3.7b (**page 57**), I note that a smaller amount is actually demanded at a lower price. This refutes the law of demand.”
11. For each stock in the stock market, the number of shares sold daily equals the number of shares purchased. That is, the quantity of each firm’s shares demanded equals the quantity supplied. So, if this equality always occurs, why do the prices of stock shares ever change?