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|--------------------------|
| 1. _____/20              |
| 2. _____/25              |
| 3. _____/10              |
| 4. _____/10              |
| <b>Total:        /65</b> |

Name: \_\_\_\_\_ Period: \_\_\_\_\_

## Unit 2 Supply and Demand

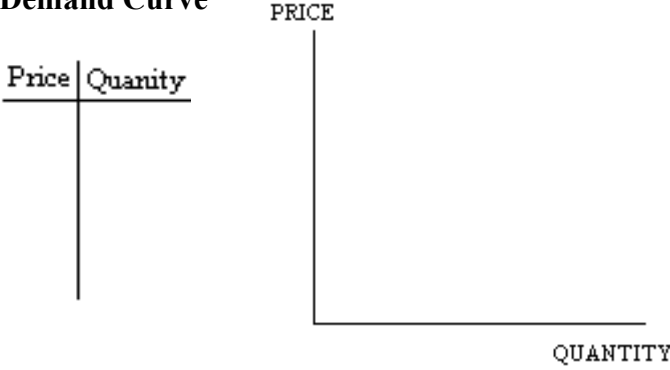
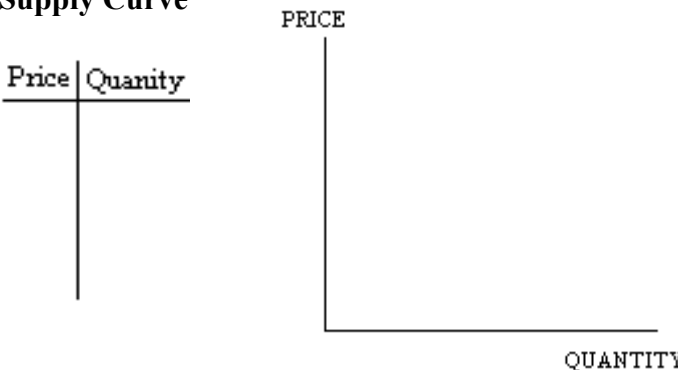
1. EXPLAIN an experience or example that shows the “real world” application of each of the following. Define the terms in your own words and use examples that clearly demonstrate your understanding of each concept.
  - i. The Law of Demand and the Law of Supply ( \_\_\_\_/5)
  - ii. The Law of Diminishing Marginal Utility ( \_\_\_\_/5)
  - iii. Normal Goods and Inferior Goods ( \_\_\_\_/5)
  - iv. Consumer’s Surplus and Producer’s Surplus ( \_\_\_\_/5)
  
2. Supply and Demand Worksheets
  - a. Complete the study guide entitled “Demand and Supply Study Guide” ( \_\_\_\_/10)
  - b. Complete the worksheet entitled “Demand and Supply Practice” ( \_\_\_\_/15)
  
3. Government Intervention:
  - a. EXPLAIN the results of the three following government policies. Be sure to draw each on a separate graph: price floor, price ceiling, production subsidy, and production quota. ( \_\_\_\_/5)
  - b. The government often uses excise taxes, called “sin taxes,” to manipulate consumption of cigarettes. Draw and label the shift from a tax. Identify the new price consumers pay, the price producers receive, the amount of tax revenue consumers pay, and the amount of tax revenue producers pay. Lastly, EXPLAIN why it is unlikely that this tax will significantly reduce cigarette consumption. ( \_\_\_\_/5)

NOTE: On the test for this unit, but not on the AP MACRO test.

4. Elasticity
  - A. Give three reasons why the demand for some goods are elastic and others are inelastic. In your response, define elasticity and inelasticity. ( \_\_\_\_/5)
  - B. EXPLAIN how the total revenue test can be used to determine if a demand curve is elastic or inelastic. ( \_\_\_\_/5)

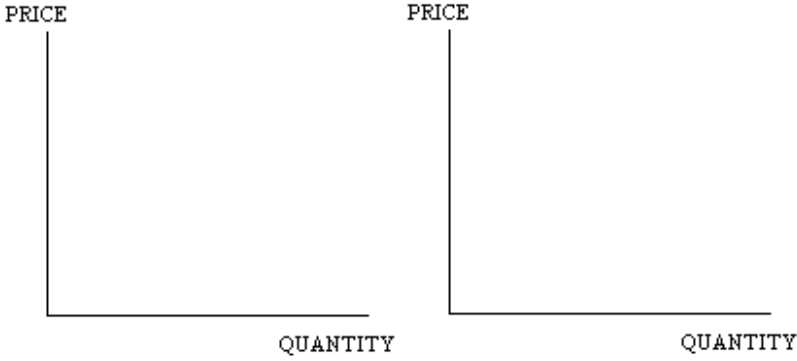
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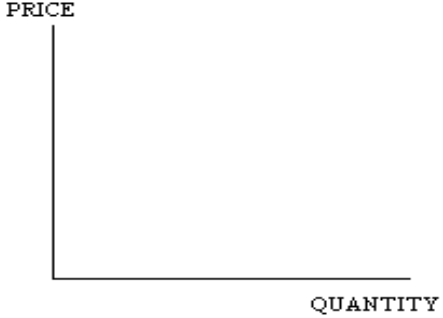
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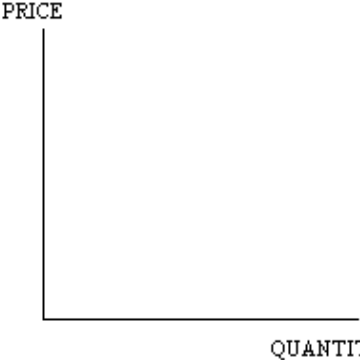
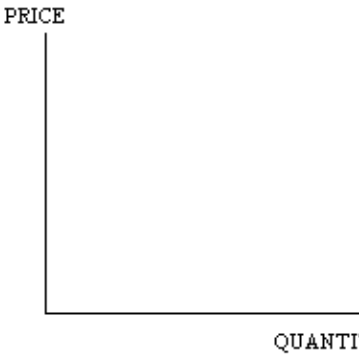
<b>Demand</b>	<b>Supply</b>
<b>Definition of Demand:</b>	<b>Definition of Supply:</b>
<b>The Law of Demand:</b>	<b>The Law of Supply:</b>
<b>Why is demand downward sloping?</b>	<b>Why is supply upward sloping?</b>
<b>Demand Curve</b> 	<b>Supply Curve</b> 
<b>What changes quantity demanded?</b>	<b>What changes quantity supplied?</b>
<b>What changes in demand? (5 Shifters of Demand)</b>	<b>What changes supply? (6 Shifters of Supply)</b>
<b>Explain the difference between a “change in demand” and change in “quantity demand”</b>	



Name:

Period:

	<p><b>Equilibrium- Qd ___ Qs</b></p> <p><b>Surplus- Qd ___ Qs</b></p> <p><b>Shortage- Qd ___ Qs</b></p>
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<p><b>Definition of Consumer Surplus (CS)</b></p> <p><b>Definition of Producer Surplus (PS)</b></p> <p><b>Definition of Dead Weight Loss (DWL)</b></p>	<p style="text-align: center;"><b>CS and PS</b></p> 
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<p><b>Economic Analysis-What happens to P and Q?</b> Cereal Market</p>  <ol style="list-style-type: none"> <li><b>1. Draw Equilibrium</b></li> <li><b>2. Analyze Change</b> <ul style="list-style-type: none"> <li>○ Supply or Demand</li> <li>○ Shifter-</li> <li>○ Increase or Decrease</li> </ul> </li> <li><b>3. New Equilibrium</b> <ul style="list-style-type: none"> <li>○ What Happens to: Price _____ Quantity _____</li> </ul> </li> </ol> <p>Change: Price of milk increases significantly</p>	<p style="text-align: center;"><b>Double Shifts in Demand and Supply</b></p> <p style="text-align: center;"><b>Rule:</b></p> <p>If demand decreases AND supply increases, what happens to</p> <p style="text-align: center;">P _____ Q _____</p> 
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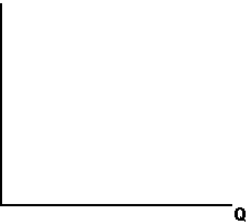
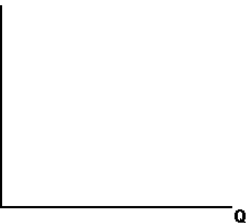

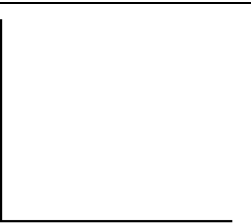
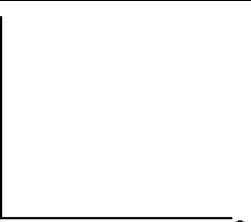

<p><b>Elasticity of Demand</b></p> <p><b>Elasticity of Supply</b></p>	<p style="text-align: center;"><b>Inelastic Demand</b></p> 	<p style="text-align: center;"><b>Elastic Demand</b></p> 
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<p><b>Elasticity of Demand Coefficients</b></p> <ul style="list-style-type: none"> <li>• Perfectly Inelastic</li> <li>• Relatively Inelastic</li> <li>• Unit Elastic</li> <li>• Relatively Elastic</li> <li>• Perfectly Elastic</li> </ul>	<p style="text-align: center;"><b>Total Revenue Test</b></p> <p><b>Inelastic Demand</b> When price increases, TR _____ When price decreases, TR _____</p> <p><b>Elastic Demand</b> When price increases, TR _____ When price decreases, TR _____</p>
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Name: \_\_\_\_\_ Period: \_\_\_\_\_

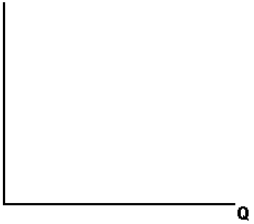

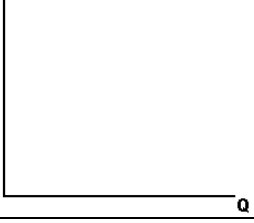
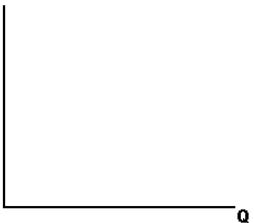

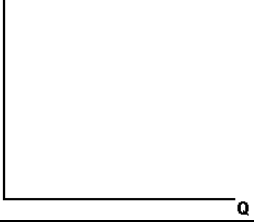

### Demand and Supply Practice

Use Economic Analysis to determine what happens to the price and quantity of computer games in each scenario.

#	Change	Graph	Economic Analysis
1	It becomes known that an electronics store is going to have a sale on their computer games 3 months from now.		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
2	The workers who produce the computer games go on strike for over two months		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
3	When the average price of movie tickets rises, it has an effect on the purchase of computer games. (Analyze computer games.)		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
4.	The workers who produce the computer games negotiate a \$20 per hour wage increase.		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
6.	A reputable private research institute announces that children who play computer games also improve their grades in school.		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
7.	Because of the use of mass production techniques, workers in the computer game industry become more productive		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____

Name:

Period:

8.	The price of home computers decreases significantly. (Analyze computer games.)		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
9.	The Federal government imposes a \$5 per game tax on the manufacturers of the games.		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
10	The manufacturer of the computer games raises the price on the games.		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
11	In order to promote American production, Congress provides a subsidy to game producers. (Analyze only American firms)		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
12	A large firm enters the game business with a new line of games. (Analyze the whole game industry)		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
13	In order make computer games available to low-income families, Congress sets a price ceiling for the games.		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
14	The popularity of the computer games increases in the world markets. At the same time new technology lower production costs. <b>(Double Shift)</b>		1. Draw and Label Equilibrium: 2. The Change: Demand- Up or Down Shifter- Supply- Up or Down Shifter- 3. After: Price _____ Quantity _____