

Practice Problems on Supply and Demand

Graphically and in words show what will happen to the market clearing price (P_e), market clearing quantity (Q_e) and resource allocation in each case. Be sure to label your graphs and axes correctly and make it clear which way you are shifting your graphs. Assume *ceteris paribus*.

1. An increase in the price of ice cream would cause what to occur in the market for frozen yogurt?
2. If there is an increase in the price of leather what will occur in the baseball glove market?
3. Mad Cow Disease has struck to cattle market. Determine what will occur in the:
 - a. market for ground beef
 - b. market for ground turkey
4. A sudden increase in the supply of peanuts has drastically reduced the price of peanut butter. What will occur to the market for Jelly?
5. What would happen to the market for restaurant pizza if the price of flour increased and the price of Chinese restaurant meals increased?
6. Assume pictures and picture frames are complements. What will happen in the market for picture frames if the price of pictures decreased?
7. Assume bananas are a normal good and bananas and pineapples are substitutes in production. What will happen in the market for bananas if the income of people who buy bananas decreased and the price of pineapples increased?
8. Assume trucks and cars are substitutes in production. Assume trucks and gasoline are complements. What will happen in the truck market if the price of cars increases and the price of gasoline decreases?

- 9. Assume books are a normal good. Assume paper is used to make books. Assume books and magazines are substitutes in production. What will happen in the book market if the income of people who buy books decreased, the price of paper increased, and the price of magazines increased?**

- 10. Assume paint and paint brushes are complements and dye is used to make paint. What will happen in the market for paint if the price of paint brushes increased and the price of dye decreased?**

- 11. Assume strawberries and strawberry jam are complements in production. What will happen in the market for strawberries if the price of strawberry jam increased?**

- 12. Medical society has recently announced that a bottle of beer in the evening can reduce the risk for heart disease. An arctic front has caused a large freeze and greatly reduced the supply of hops. What will occur in the beer market?**