Problem Set 3: Where Prices Come From

1. The law of demand states that the quantity of a good demanded varies
    a. inversely with its price
    b. directly with population
    c. directly with income
    d. inversely with the price of substitute goods

2. Which of the following is consistent with the law of demand?
    a. A decrease in the price of a gallon of milk causes a decrease in the quantity of milk demanded
    b. An increase in the price of a soda causes a decrease in the quantity of soda demanded
    c. An increase in the price of a tape causes an increase in the quantity of tapes demanded
    d. A decrease in the price of juice causes no change in the quantity of juice demanded

3. Apples and pears are substitutes. If the price for apples fall then, holding everything else constant,
    a. Quantity demanded for apples increases and quantity demanded for pears decreases
    b. Demand for apples increases and quantity demanded for pears decreases
    c. Quantity demanded for apples increases and demand for pears decreases
    d. Demand for apples increases and quantity demanded for pears decreases

4. Buns and beef paddies are complements, if the price for beef paddies decreases then, holding everything else constant,
    a. Quantity demanded for beef paddies increases and quantity demanded for buns decreases
    b. Demand for beef paddies increases and quantity demanded for buns decreases
    c. Quantity demanded for beef paddies increases and demand for buns increases
    d. Demand for beef paddies increases and quantity demanded for buns increases

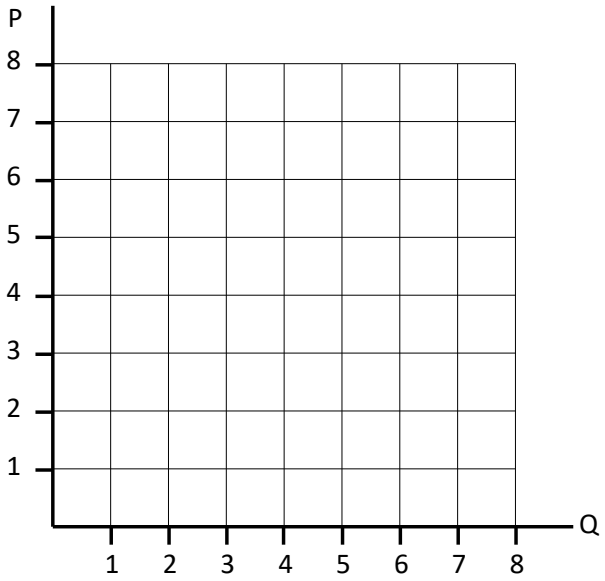
5. There is a decrease in demand for SUVs. Holding everything else constant, Ford will then
    a. reduce quantity supplied of SUVs and increase quantity supplied of sedans
    b. reduce supply of SUVs and increase quantity supplied of sedans
    c. reduce quantity supplied of SUVs and increase supply of sedans
    d. reduce supply of SUVs and increase supply of sedans

6. Unions and employers have agreed on an increase in wages. Holding everything else constant, this
    a. shifts Ford's supply to the left
    b. shifts Ford's supply to the right
    c. increases Ford's quantity supplied
    d. decreases Ford's quantity supplied

7. If both demand and supply increase at the same time, we know for sure that
    a. Equilibrium price increases
    b. Equilibrium quantity increases
    c. Equilibrium price decreases
    d. Equilibrium quantity decreases

8. Given is the following (inverse) demand and supply curve:
    - Demand: P = 8 - Q
    - Supply: P = 2 + Q

Draw the demand and supply curve into the following diagram:



Fill out the following table:

Price	Quantity Demanded	Quantity Supplied	Excess Supply	Excess Demand
7				
6				
5				
4				
3				