Liberty High School

AP Macroeconomics

Mr. Lopez

Chapter Four

The Market Forces, Supply and Demand  
Study Guide

( Points)

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

Part 1 – Key Terms

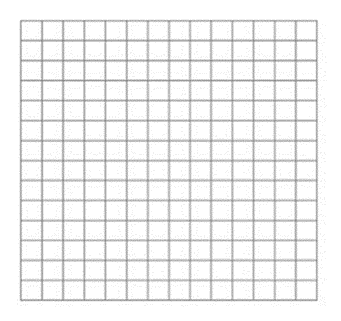
1. Market:
2. Competitive market:
3. Monopoly:
4. Quantity demanded:
5. Law of demand:
6. Demand schedule:
7. Demand curve:
8. Normal good:
9. Inferior good:
10. Substitutes:
11. Compliments:
12. Quantity supplied:
13. Law of supply:
14. Supply schedule:
15. Supply curve:
16. Equilibrium:
17. Equilibrium quantity:
18. Surplus:
19. Shortage:
20. Law of supply and demand:

Part 2 – Problems and short answers:

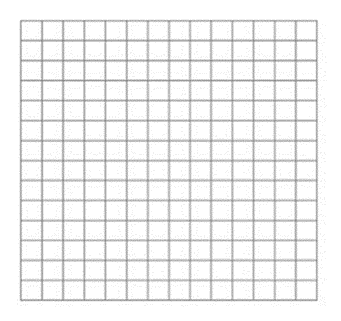
1. Suppose we have the following market supply and demand schedules for skate bicycles:

|  |  |  |
| --- | --- | --- |
| **Price** | **Quantity Demanded** | **Quantity Supplied** |
| $100 | 70 | 30 |
| 200 | 60 | 40 |
| 300 | 50 | 50 |
| 400 | 40 | 60 |
| 500 | 30 | 70 |
| 600 | 20 | 80 |

1. Draw/plot the supply and demand curves for bicycles using the information from the schedule above and the graph below.



1. What is the equilibrium price of bicycles?
2. What is the equilibrium quantity of bicycles?
3. If the price of bicycles were $100, is there a surplus or a shortage? How many units of surplus or shortage are there? Will this cause the price to rise or fall?
4. If the price of bicycles were $400, is there a surplus or shortage? How many units of surplus or shortage? Will this cause the price to rise or fall?
5. Suppose the bicycle maker’s labor union bargains for an increase in its wages. Furthermore, suppose the event raises the cost of production, makes bicycle manufacturing less profitable, and reduces the quantity supplied of bicycles by 20 units at each price of bicycles. Draw/plot the new supply curve and the original supply and demand curves on the graph below. What is the new equilibrium price and quantity in the market for bicycles?



1. Each of the events listed below has an impact on the market for bicycles. For each event, which curve is affected (supply or demand), what direction is it shifted, and what is the resulting impact on the equilibrium price and quantity of bicycles?
   1. The price of automobiles increases?
   2. Consumers incomes decrease, and bicycles are a normal good.
   3. The price of steel used to make bicycle frames increase.
   4. An environmental movement shifts tastes towards bicycling.
   5. Consumers expect the price of bicycles to decrease in the future.
   6. A technological advance in the manufacturing of bicycles occurs.
   7. The prices for bicycle helmets and shoes are reduced.
   8. Consumer income increases and bicycles are an inferior good.
2. The following questions address a market where both supply and demand shift.
   1. What would happen to the equilibrium price and quantity in the bicycle market if there were both an increase in both the supply and demand for bicycles?
   2. What would happen to the equilibrium price and quantity in the bicycle market if the demand for bicycles increases more than the increase in the supply of bicycles?
3. What are the two main characteristics of a perfectly competitive market?
4. Explain the law of demand.
5. What are the variables that should affect the amount of a good that consumers wish to buy, other than price?
6. What is the difference between a normal and an inferior good?
7. Explain the law of supply?
8. What are the variables that should affect the amount of a good that producers wish to sell, other than price?
9. Suppose suppliers of corn expect the price to rise in the future. How would this affect the supply and demand for corn and the equilibrium price and quantity of corn?
10. If there is a surplus of a good, is the price above or below equilibrium for that good?
11. Suppose there is an increase in consumer incomes. In the market for automobiles (a normal good). Does this event cause an increase in demand or an increase in the quantity demanded? Does this cause an increase in supply or an increase in the quantity supplied? Explain your answer.
12. Suppose there is an advance in the technology employed to produce automobiles. In the market for automobiles, does this event cause an increase in supply or an increase in the quantity supplied? This this event cause an increase in demand or an increase in the quantity demanded? Explain your answer.

Part 3 – True or False

1. \_\_\_\_\_\_\_ A perfectly competitive market consists of products that are all slightly different from one another.
2. \_\_\_\_\_\_\_\_ A monopolistic market has only one seller.
3. \_\_\_\_\_\_\_\_ The laws of demand states that an increase in the prices of a good decreases the demand for that good.
4. \_\_\_\_\_\_\_ If apples and oranges are substitutes, an increase in the price of apples will decrease the demand for oranges.
5. \_\_\_\_\_\_\_\_ If golf clubs and golf balls are complements, an increase in the price of golf clubs will decrease the demand for golf balls.
6. \_\_\_\_\_\_\_ If consumers expect the price of shoes to rise, there will be an increase in the demand for shoes today.
7. \_\_\_\_\_\_\_The law of supply states that an increase in the price of a good increases the quantity supplied of that good.
8. \_\_\_\_\_\_\_ A increase in the price of steel will shift the supply of automobiles to the right.
9. \_\_\_\_\_\_\_ When the price of a good is below the equilibrium price, it causes a surplus.
10. \_\_\_\_\_\_\_ The market supply curve is the horizontal summation of the individual supply curves.
11. \_\_\_\_\_\_\_ If there is a shortage of a good, then the price of that good tends to fall.
12. \_\_\_\_\_\_\_ If pencils and paper are complements, an increase in the price of pencils causes the demand for paper to decrease or shift to the left.
13. \_\_\_\_\_\_\_If Coca Cola and Pepsi are substitutes, an increase in the price of Coca Cola will cause an increase in the equilibrium price and quantity in the market for Pepsi.
14. \_\_\_\_\_\_\_ An advance in the technology employed to manufacture Rollerblades will result in a decrease in the equilibrium price and an increase in the equilibrium quantity in the market for Rollerblades.
15. \_\_\_\_\_\_\_ If there is an increase in supply accompanied by a decrease in demand for coffee, then there will be a decrease in both the equilibrium price and quantity in the market for coffee.

Part 4 – Additional Critical Thinking:

1. You are watching a national news broadcast. It is reported that an early snowstorm is heading for Washington state and that it will likely destroy much of this year’s apple crop. Your roommate says, “” If there are going to be fewer apples available , I’ll bet that apple prices will rise. We should buy enormous quantities of apples now and put them in storage. Later we call sell them and make a killing.”
   1. If this information about the storm is publicly available so that all buyers and sellers in the apple market expect the prices of apples to rise in the future, what will happen immediately to the supply and demand for apples and the equilibrium price and quantity?
   2. Can you “beat the market” with public information? That is, can you use publicly available information to help you in buying something cheap and quickly sell it at a higher price? Why or Why not?
   3. Suppose a friend of yours works for the US Weather Bureau. She calls you and provides you with inside information about the approaching storm- information not available to the public. Can you “beat the market” with inside information? Why or why not?