

Changes in Market Equilibrium



A. Key Terms

Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

Column I

- _____ 1. when quantity supplied exceeds quantity demanded at a certain price
- _____ 2. when quantity demanded exceeds quantity supplied at a certain price
- _____ 3. the financial and opportunity costs consumers pay in looking for a good or service
- _____ 4. a product that reflects the impact of advertising and consumer taste on consumer behavior

Column II

- a. shortage
- b. fad
- c. search costs
- d. surplus

B. Main Ideas

Write the letter of the correct answer in the blank provided.

- _____ 5. How does a firm generally respond to a higher demand for its goods?
 - a. It rations goods.
 - b. It raises prices.
 - c. It cuts prices.
 - d. There is no set response to this situation.
- _____ 6. How do falling prices affect supply?
 - a. The supply curve moves to the left.
 - b. The supply curve moves to the right.
 - c. The quantity demanded rises.
 - d. The quantity supplied rises.
- _____ 7. Advances in production, such as new technology, can do which of the following to a good?
 - a. transform it from an expensive luxury to a mid-priced good
 - b. change it from a necessity to an expensive nonessential
 - c. raise the price as more features become available
 - d. make the production so simple that it becomes unnecessary
- _____ 8. What happens first when the demand for a fad peaks and falls?
 - a. The quantity supplied goes down, and the price goes up.
 - b. The quantity supplied and the price both go up.
 - c. The price goes down, and the quantity supplied goes up.
 - d. Excess supply makes the good easy to obtain.
- _____ 9. Which of the following is an example of search costs?
 - a. paying a premium cost for goods
 - b. buying goods in some special way that is outside the normal channels
 - c. driving to a faraway place to find available goods
 - d. selling extra goods for a discount price
- _____ 10. Equilibrium in a market means which of the following?
 - a. the point at which quantity supplied and quantity demanded are the same
 - b. the point at which unsold goods begin to pile up
 - c. the point at which suppliers begin to reduce prices
 - d. the point at which prices fall below the cost of production

5. MARKET-CLEARING PRICE

Name _____

Date _____

ECONOMIC SKILLS LAB ANALYZING EVENTS

1. Supermarkets in a given area compete directly with one another, but their competitors aren't just rival grocery stores. They're also sellers who offer close substitutes.

For example, instead of buying all their groceries at supermarkets, consumers have increasingly turned to restaurants for their meals. Further, discount stores like Wal-Mart, Price Club, and K-Mart have begun offering shoppers various groceries at greatly reduced prices.

- a. Is the increased competition likely to affect the market-clearing prices of groceries? Briefly explain.

- b. Think of wage rates as market-clearing prices for labor. Do you think the increased competition for groceries would affect the wages that supermarkets pay their employees? Explain.

2. Consider the following facts:

Fact A: In South Korean cities many people who want a taxi ride step far out into the street to compete with other customers. Even then, many taxi drivers don't stop. As a result, people shout to the passing taxis that they will pay two, three, or four times the fare. This usually makes the drivers stop.

Fact B: The South Korean government sets low prices for taxi fares.

Now, consider these two additional facts:

Fact C: During the 1970s and early 1980s U.S. motorists lined up at service stations and waited to buy gasoline. Some people even hired "gas jockeys" to wait in line for them.

Fact D: During these years the U.S. government kept the price of gasoline low.

- a. Use economic thinking about market-clearing prices to explain the two instances of consumer behavior.

- b. Do these behaviors show a difference between market competition and other forms of competition? Explain.

5. MARKET-CLEARING PRICE

Name _____ Date _____

ECONOMIC SKILLS LAB

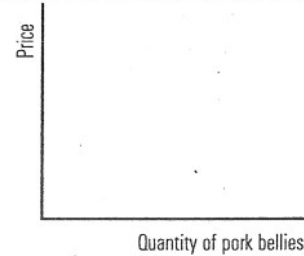
TWO STRIPS OF BACON ON A MARKET-CLEARING PRICE

The year of the bacon burger was 1995. It seemed as if every hamburger restaurant in the United States added a couple of strips of bacon to its burgers in that year. Two pieces may not sound like much, but when you multiply them by millions of burgers, they add up to a lot of bacon.

Bacon is made from slabs of uncured pork called pork bellies. Not surprisingly, the price of pork bellies rose by nearly 50 percent during 1995. Fortunately for bacon fans, the price increase was short-lived. After a couple of months, producers introduced more pork to the market, causing the price to fall back toward its original level.

1. Did pork bellies become scarcer during 1995? Explain.

2. Use this blank graph to draw your own demand and supply curves to show why the price of pork bellies soared during 1995. (Instead of plotting specific numbers for demand and supply, just sketch the appropriate curves.)



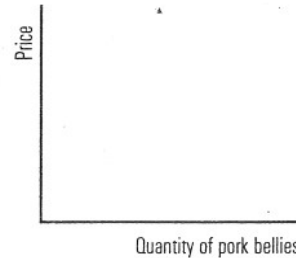
3. Refer to the graph you have drawn for each of the following:

a. What pushed up the price of pork bellies?

b. What would have occurred if the government had prevented the price of pork bellies from rising above its original level?

c. Was the higher price the market's method of rationing available supplies? Explain.

4. Use this blank graph to show why the price of pork bellies dropped back toward its original level.



5. Besides illustrating the rationing function of market prices, the example also shows another important function of those prices. Explain that function.

5. MARKET-CLEARING PRICE

Name _____

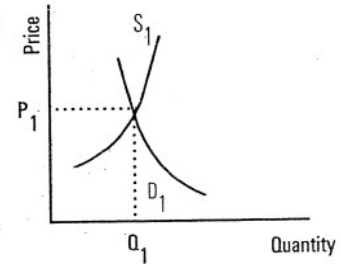
Date _____

ECONOMIC SKILLS LAB

APPLYING THE LAWS OF SUPPLY AND DEMAND

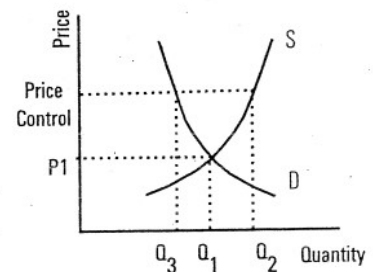
We can't actually see demand and supply curves, but they are all around us, shifting this way and that. We know this because we can observe the changes they produce in market-clearing prices.

- The world population has been growing, and incomes have increased. Improved seeds, fertilizers, irrigation practices, and cultivation methods have increased the productivity of farms around the world. The prices of agricultural products like wheat and corn have fallen over the last 30 years.



Add a new demand curve (D_2) and a new supply curve (S_2) on the graph to the right to explain the situation described above.

- In some countries government programs set prices for crops like wheat above market-clearing levels. Use the graph to the right to answer the following questions.

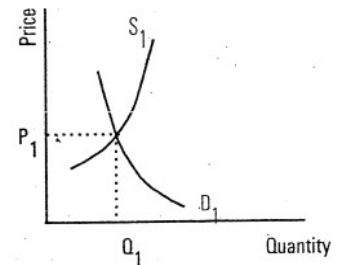


- What effect do you think these government price policies have had on the amounts of these crops grown in these countries?

- What effect do these price controls have on the amount of the crops demanded?

- Would these government policies cause a shortage or surplus of crops?

- Some people fear the world will soon experience widespread food shortages and soaring food prices. They argue that food supply will grow more slowly because many farms throughout the world are being converted to industrial parks and housing projects. At the same time, populations are growing and incomes are increasing.



Draw new supply and demand curves on the graph to the right to explain the situation described above. Add a new demand curve (D_2) and a new supply curve (S_2).

- Others argue that the world's supply of grain is temporarily low because farmers in Russia and other former Soviet states have experienced political turmoil and bad weather. Also, farmers in the United States are seeing the end of government farm policies that kept prices of farm products artificially high. In future years, they see farmers worldwide making greater use of technology and scientific farming methods.

Explain what you think these people are expecting to happen to grain prices in the future.
