Principles of Economics

Session 2: In-class Activity

1) What is the “law of demand”?

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2) What is the “law of supply”?

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3) What is our “ceteris paribus” assumption and why is it important?

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In the following scenarios, consider the **market for beer** and use our supply and demand model to analyze the situation. For each, shift the appropriate curve in the model and make a prediction about what will happen to the equilibrium price and quantity. (Hint: In the real world, both curves can shift at the same time, but here, only one curve shifts in each scenario.)

**Example:** The legal drinking age is reduced to 18.

S

Price

D1

Quant of beer

**(In the above example, the demand curve has been shifted to the right.)**

Equilibrium price will: \_\_\_**increase\_(example answer)**\_\_\_

Equilibrium quantity will: \_\_\_**increase\_\_(example answer)**\_\_

4) The price of hops, an ingredient in beer, increases.

Price

Quant of beer

Equilibrium price will:\_\_\_\_\_\_\_\_\_\_\_\_

Equilibrium quantity will:\_\_\_\_\_\_\_\_\_\_\_\_\_

5) Consumers decide wine is much more sophisticated than beer and begin preferring wine to beer.

Price

Quant of beer

Equilibrium price will:\_\_\_\_\_\_\_\_\_\_\_\_

Equilibrium quantity will:\_\_\_\_\_\_\_\_\_\_\_\_\_

6) New technology develops that drastically reduces the time it takes for beer to ferment. This results in decreasing the production time for beer.

Price

Quant of beer

Equilibrium price will:\_\_\_\_\_\_\_\_\_\_\_\_

Equilibrium quantity will:\_\_\_\_\_\_\_\_\_\_\_\_\_

7) Foreign firms begin exporting beer to the US in large quantities.

Price

Quant of beer

Equilibrium price will:\_\_\_\_\_\_\_\_\_\_\_\_

Equilibrium quantity will:\_\_\_\_\_\_\_\_\_\_\_\_\_

8) The price of spirits (such as whiskey, vodka, etc.) increase significantly. Consider spirits to be a substitute in consumption for beer.

Price

Quant of beer

Equilibrium price will:\_\_\_\_\_\_\_\_\_\_\_\_

Equilibrium quantity will:\_\_\_\_\_\_\_\_\_\_\_\_\_

9) Alcoholic seltzer water beverages (such as White Claw) are introduced in the US and become very popular. Consider them a substitute for beer for some consumers.

Price

Quant of beer

Equilibrium price will:\_\_\_\_\_\_\_\_\_\_\_\_

Equilibrium quantity will:\_\_\_\_\_\_\_\_\_\_\_\_\_

10) Many Americans decide to go on low-carb diets. Note that beer (even light beer) has a lot of carbs.

Price

Quant of beer

Equilibrium price will:\_\_\_\_\_\_\_\_\_\_\_\_

Equilibrium quantity will:\_\_\_\_\_\_\_\_\_\_\_\_\_

11) Consider the market for premium beer. Due to the recession, incomes decrease. Consider premium beer a normal good.

Price

Quant of beer

Equilibrium price will:\_\_\_\_\_\_\_\_\_\_\_\_

Equilibrium quantity will:\_\_\_\_\_\_\_\_\_\_\_\_\_

12) Consider the market for budget beer. Due to the recession, incomes decrease. Consider budget beer an inferior good.

Price

Quant of beer

Equilibrium price will:\_\_\_\_\_\_\_\_\_\_\_\_

Equilibrium quantity will:\_\_\_\_\_\_\_\_\_\_\_\_\_

Use the following information to answer the next two questions:

Consider a market where the demand and supply can be represented by the following:

P = 600-2Qd

P = 100+3Qs

13) Graph the above and calculate equilibrium price and quantity.

14) In the above scenario, what would happen if there was a legal limit on the price set at $300?