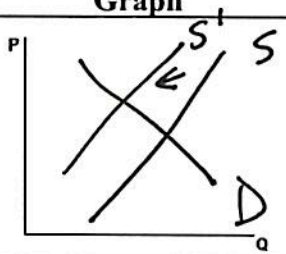
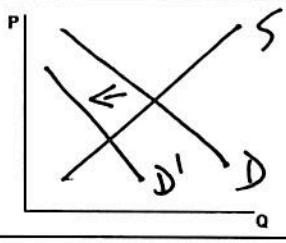
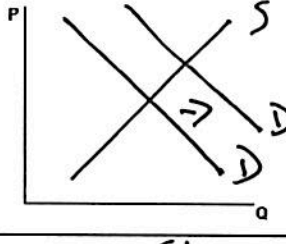
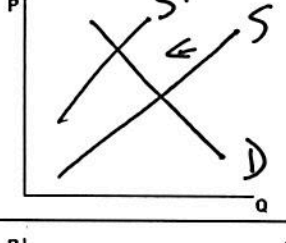
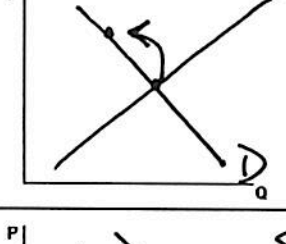
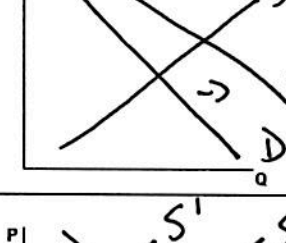
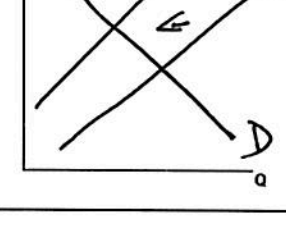


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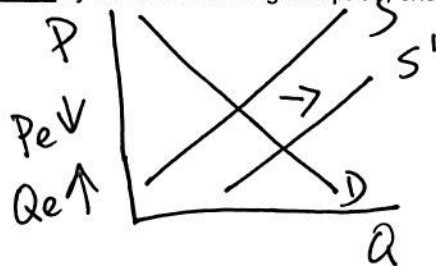
Demand and Supply Practice

Use economic analysis to determine what happens to the price and quantity of cereal in each scenario.

#	Change	Graph	Economic Analysis
1	The workers who produce cereal go on strike.		<ol style="list-style-type: none"> 1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter <u>Availability of Inputs</u> 3. After: Pe <u>↑</u> Quantity <u>↓</u>
2	The economy goes into a recession causing incomes to decrease (Assume cereal is a normal good).		<ol style="list-style-type: none"> 1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter <u>Income of Consumers</u> 3. After: Pe <u>↓</u> Quantity <u>↓</u>
3	The price of milk, a complement to cereal, decreases (Analyze cereal).		<ol style="list-style-type: none"> 1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter <u>Change in price of Complements</u> 3. After: Pe <u>↑</u> Quantity <u>↑</u>
4.	The price of wheat and corn, key resources in the production of cereal, decreases.		<ol style="list-style-type: none"> 1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter <u>Cost of inputs</u> 3. After: Pe <u>↑</u> Quantity <u>↓</u>
5.	Cereal producers increase the price of cereal.		<ol style="list-style-type: none"> 1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter <u>No shift! Change only in Qd</u> 3. After: Pe <u>↑</u> Quantity <u>↓</u>
6.	A reputable private research institute announces that children who eat cereal improve their grades in school.		<ol style="list-style-type: none"> 1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter <u>Consumer tastes & preferences</u> 3. After: Pe <u>↑</u> Quantity <u>↑</u>
7.	The government places a per-unit tax on cereal manufacturers.		<ol style="list-style-type: none"> 1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter <u>Govt action</u> 3. After: Pe <u>↑</u> Quantity <u>↓</u>

8.	An improvement in equipment and technology for cereal firms.		<ol style="list-style-type: none"> 1. Draw and Label Equilibrium: 2. The Change: <u>Supply</u> or Demand <u>Increase</u> or Decrease Shifter <u>Technology/productivity</u> 3. After: Pe <u>↓</u> Quantity <u>↑</u>
9.	The supply of eggs, a close substitute of cereal, increases. (Analyze cereal)		<ol style="list-style-type: none"> 1. Draw and Label Equilibrium: 2. The Change: Supply or <u>Demand</u> Increase or <u>Decrease</u> Shifter <u>Availability of substitute</u> 3. After: Pe <u>↓</u> Quantity <u>↓</u>
10	An increase in population leading to an increase in cereal customers		<ol style="list-style-type: none"> 1. Draw and Label Equilibrium: 2. The Change: Supply or <u>Demand</u> Increase or Decrease Shifter <u># of consumers</u> 3. After: Pe <u>↑</u> Quantity <u>↑</u>
11	In order to promote American production, the government subsidizes cereal producers. (Analyze only American firms)		<ol style="list-style-type: none"> 1. Draw and Label Equilibrium: 2. The Change: <u>Supply</u> or Demand Increase or Decrease Shifter <u>Govt action</u> 3. After: Pe <u>↓</u> Quantity <u>↑</u>
12	New firms begin to start making cereal (Analyze the entire industry).		<ol style="list-style-type: none"> 1. Draw and Label Equilibrium: 2. The Change: <u>Supply</u> or Demand Increase or Decrease Shifter <u># of producers</u> 3. After: Pe <u>↓</u> Quantity <u>↑</u>
13	The popularity of the cereal increases at the same time new technology lowers production costs. (Double Shift)		<ol style="list-style-type: none"> 1. Draw and Label Equilibrium: 2. The Change: Demand <u>Up</u> or Down Shifter- <u>T+D</u> Supply- <u>Up</u> or Down Shifter- <u>Technology</u> 3. After: Pe <u>?</u> Quantity <u>↑</u>

Adapted from The Study Guide by Walstad and Bingham p. 35, exercise 7 and Sally Dickson.



Change in price is indeterminate