

Answer Sheet

“Quiz: Analyzing How Demand, Supply, and Prices Work Together in Markets”

1. Interpret each of the following headlines and explain how demand or supply is affected. Then explain happens to the market price and the market quantity.

- a. “South American insects attack lettuce fields. Harvest down 50%”
 1. What has happened to the demand for lettuce? **Unchanged**
 2. What has happened to the supply of lettuce? **Decreased**
 3. What has happened to the market price? **Increased**
 4. What has happened to the market quantity? **Decreased**

- b. “Scientists find daily consumption of broccoli add years to a human’s life.”
 1. What has happened to the demand for broccoli? **Increased**
 2. What has happened to the supply of broccoli? **Unchanged**
 3. What has happened to the market price? **Increased**
 4. What has happened to the market quantity? **Increased**

- c. “New game called ‘Gotcha’ becomes the latest ‘must have’ game.”
 1. What has happened to the demand for “Gotcha”?
Increased
 2. What has happened to the supply of “Gotcha”? **Unchanged**
 3. What has happened to the market price? **Increased**
 4. What has happened to the market quantity? **Increased**

- d. “XYZ Company adds ten new electricity power plants this week.”
 1. What has happened to the demand for electricity?
Unchanged
 2. What has happened to the supply of electricity? **Increased**
 3. What has happened to the market price? **Decreased**
 4. What has happened to the market quantity? **Increased**

- e. “People in Mexico, fearing “Mad Cow” disease, stop eating beef.”
 1. What has happened to the demand for beef? **Decreased**
 2. What has happened to the supply of beef? **Unchanged**
 3. What has happened to the market price? **Decreased**
 4. What has happened to the market quantity? **Decreased**

2. Answer each of the following questions completely:
- a. Suppose water sells for \$0.50 per cubic foot. There is a drought, and the price of water doubles to \$1.00 per cubic foot. People are outraged and some government legislators suggest passing legislation that water cannot be sold for more than the old price of \$0.50 per cubic foot.
 1. Economists call this price control legislation a **Price Ceiling**.
 2. Economists warn this legislation can result in a(n) **excess** demand for water. There will be a **shortage** of water.
 3. If you a government legislator, explain how you would vote on this legislation and the reason for your vote. **There can be a variety of answers. Students need to clearly and logically express their reason for their vote.**
 - b. Suppose you are an orange grower and growers all over the country, due to favorable weather conditions, find their orchards producing a "bumper crop". Every grower is picking lots of oranges. However, there are so many oranges for sale that the price of oranges has significantly dropped. The revenue received from the oranges doesn't cover the costs of growing the oranges. You and all of your fellow growers march to Washington and ask for some relief. You want the government to freeze the price of oranges so the price doesn't go lower.
 1. Economists call this price control legislation a **Price Floor**.
 2. Economists warn this legislation can result in a(n) **excess** supply of oranges. There will be a **surplus** of oranges.
 3. If you a government legislator, explain how you would vote on this legislation and the reason for your vote.
 4. **There can be a variety of answers. Students need to clearly and logically express their reason for their vote.**