

Key

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

Hour: \_\_\_\_\_

**Chapter 6: Price**

**Price: Supply and Demand Together**

In a market, supply and demand work together to determine the price of a good.

1. What market condition exists when quantity supplied is greater than quantity demanded?

Surplus

2. What happens to price when the market condition in question 1 exists?

price falls

3. What market condition exists when quantity demanded is greater than quantity supplied?

shortage

4. What happens to price when the market condition in question 3 exists?

price rises

5. What market condition exists when quantity demanded is equal to quantity supplied?

Equilibrium

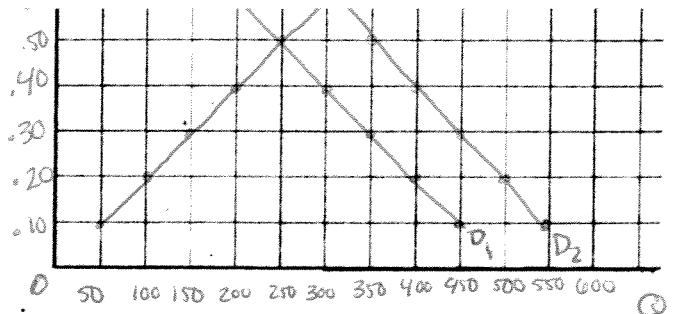
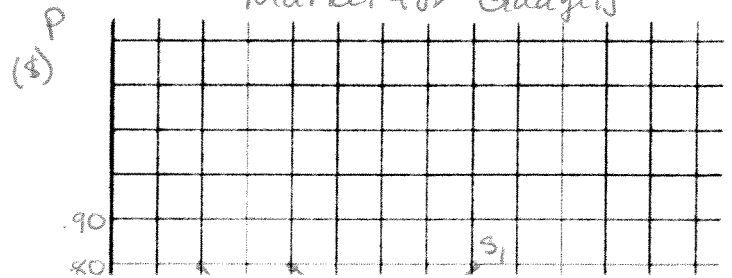
6. Do market tend to move toward shortage, surplus, or equilibrium?

Equilibrium

Suppose that the market for gadgets, the quantities demanded and supplied at various prices are shown in the following table, and answer question 7.

SUPPLY AND DEMAND IN THE GADGET MARKET		
Price	Quantity	
	Demanded	Supplied
\$0.10	450	50
\$0.20	400	100
\$0.30	350	150
\$0.40	300	200

\$0.70	150	350
\$0.80	100	400



7. Use the information in the table to draw the supply and demand curves for the gadget market on the grid. Label the axes "Price" and "Quantity," label the Demand Curve "D<sub>1</sub>" and the Supply Curve "S<sub>1</sub>." Don't forget a title!

8. The equilibrium price in the gadget market is \$0.50.

9. At equilibrium price, sellers want to sell 250 gadgets and buyers want to buy 250 gadgets.

10. If the price of gadgets rises to \$0.70, sellers will want to sell 350 gadgets and buyers will want to buy 150 gadgets.

11. A price rise to \$0.70 will result in a surplus of 200 gadgets.

12. If the market condition in question 11 exists, prices will fall and price will settle at \$.50 (equilibrium).

Now assume that as a result of changing consumer preferences, gadgets become the newest fad, and respond to the following questions.

13. Will this change in consumer preferences cause a change in demand or quantity demanded?

Change in demand

14. Use the demand schedule below to draw a second demand curve on the grid in question 7. Label this second demand curve "D<sub>2</sub>."

Price	Quantity Demanded
\$0.10	550
\$0.20	500
\$0.30	450
\$0.40	400
\$0.50	350
\$0.60	300
\$0.70	250
\$0.80	200

Use the graph in question 7, which now shows demand curves D<sub>1</sub> and D<sub>2</sub> and supply curve S<sub>1</sub>.

15. The new equilibrium price in the gadget market is \$.60.
16. At the new price, sellers want to sell 300 gadgets and buyers want to buy 300 gadgets.
17. Is the gadget market described by D<sub>2</sub> and S<sub>1</sub> in a state of shortage, surplus, or equilibrium?

equilibrium

Price is a way for buyers and sellers to communicate with each other. It signals a change in the market for a good.

18. When a market experiences a shortage, price will rise.

equilibrium.

20. When a market experiences a surplus, price will fall.

21. When a surplus occurs, supply and demand work together to influence price and move the market toward

equilibrium.

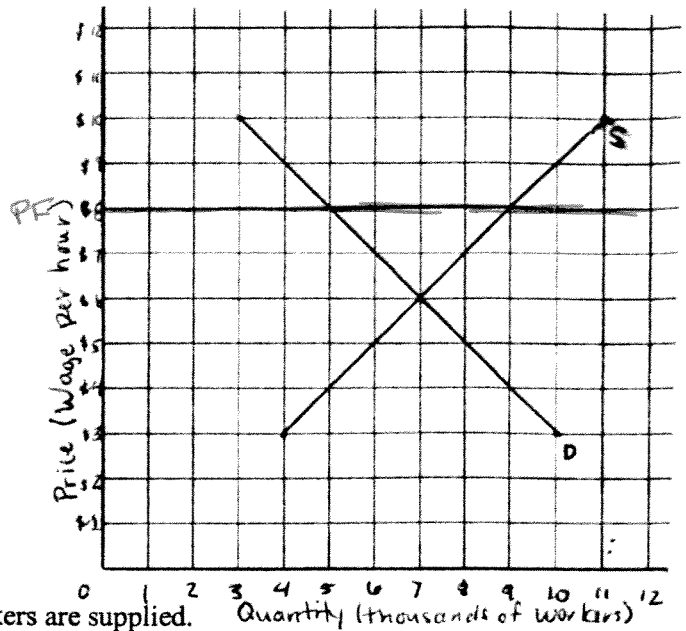
### Price Controls

22. A price ceiling is a legislated price above which legal trade cannot be made.

23. A price floor is a legislated price below which legal trade cannot be made.

A minimum wage is a price floor. It is an effort by state or federal government to ensure that workers receive a fair wage for their labor. The following graph shows the wages in a labor market.

Labor Market



24. The equilibrium price of labor in this

market is \$6.00.

25. The equilibrium quantity of labor in this

market is 7,000 workers.

Now, suppose that government imposes a minimum wage of \$8 an hour – no worker can receive a wage of less than \$8 an hour.

26. Draw a horizontal line across the graph at a price (wage) of \$8 to show this price floor.

27. At a wage of \$8 an hour, 5,000

workers are demanded and 9,000 workers are supplied.

28. Government intended to help workers by setting a minimum wage but, instead, has created a

surplus of 4,000 workers.

29. What happens to many workers as a result of the minimum wage? unemployed

30. How would government achieve its goal of helping workers without using a minimum wage?

Various answers;  
- subsidize labor  
- provide gov't jobs

suspected price gouging by controlling the maximum price wholesalers could charge for gasoline.

31. The Hawaiian law is a price ceiling

32. Hawaii will likely experience a shortage of gasoline as a result of the law.

33. If a legislator in Hawaii asked your opinion about the gasoline price control, what would you say?

Various answers.

