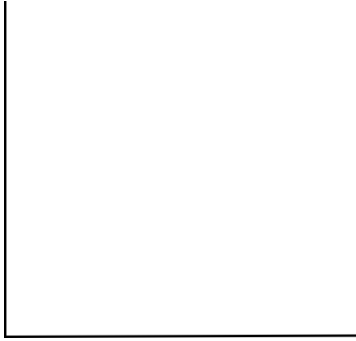


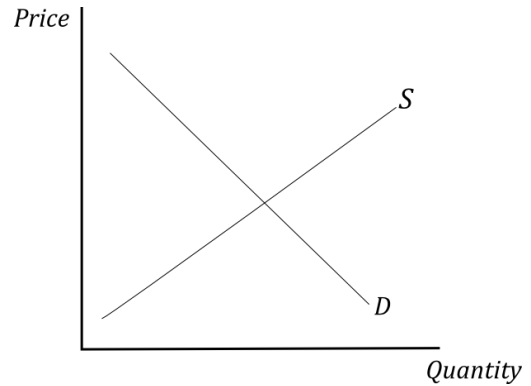
Name:

Extra Credit Homework #5 – Markets

1. Draw a supply curve and a demand curve of your choosing below, making sure they satisfy the law of supply and the law of demand. Label the diagram, including the market clearing price and quantity.

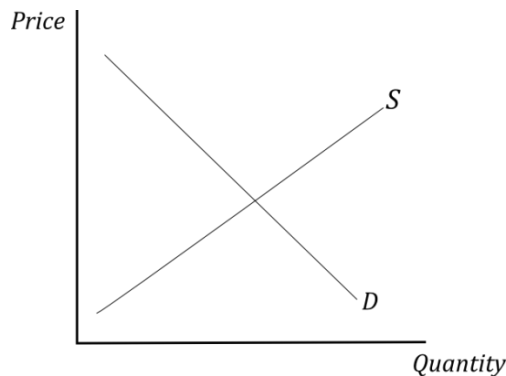


2. Illustrate below a shift of the **demand** curve to the right, labeling the old and new market clearing quantities and prices. Then complete the sentence below:



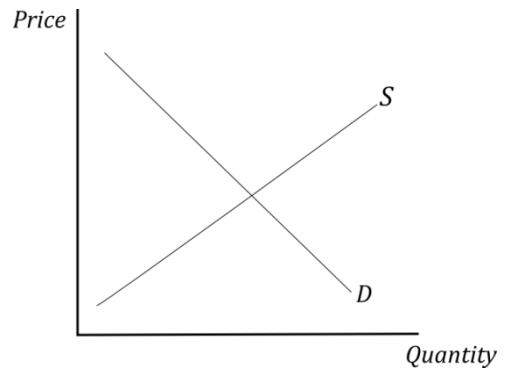
Due to the increase / decrease (circle one) in demand, price goes up / down (circle one) and quantity goes up / down (circle one).

3. Illustrate below a shift of the **supply** curve to the right, labeling the old and new market clearing quantities and prices. Then complete the sentence below:



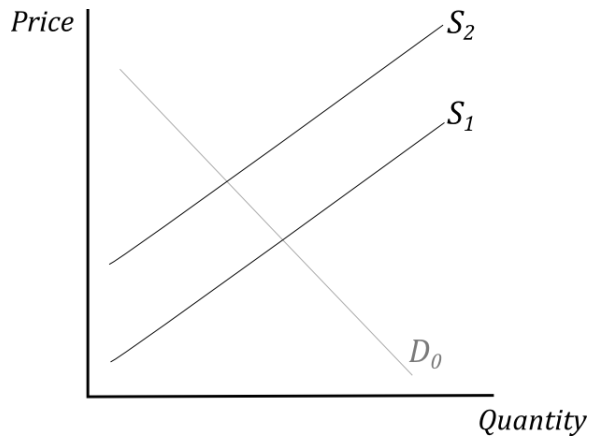
Due to the increase / decrease (circle one) in supply, price goes up / down (circle one) and quantity goes up / down (circle one).

4. Illustrate below a shift of the **supply** and **demand** curves to the left, labeling the old and new market clearing quantities and prices. Then complete the sentence below:

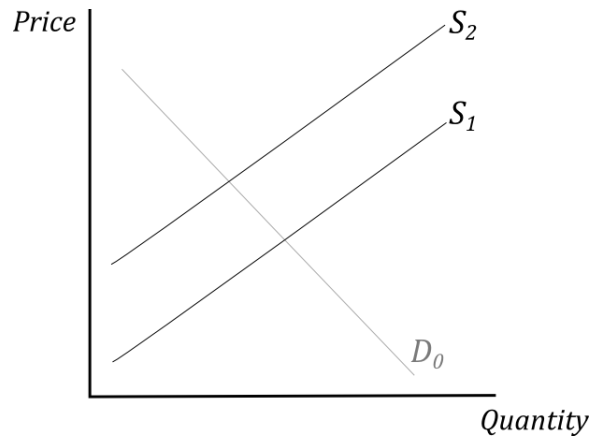


Due to the increase / decrease in supply, and the increase / decrease in demand, the change in price is positive / negative / uncertain and the change in quantity is positive / negative / uncertain.

5. Draw a demand curve of your choosing that is **more inelastic** than D_0 .



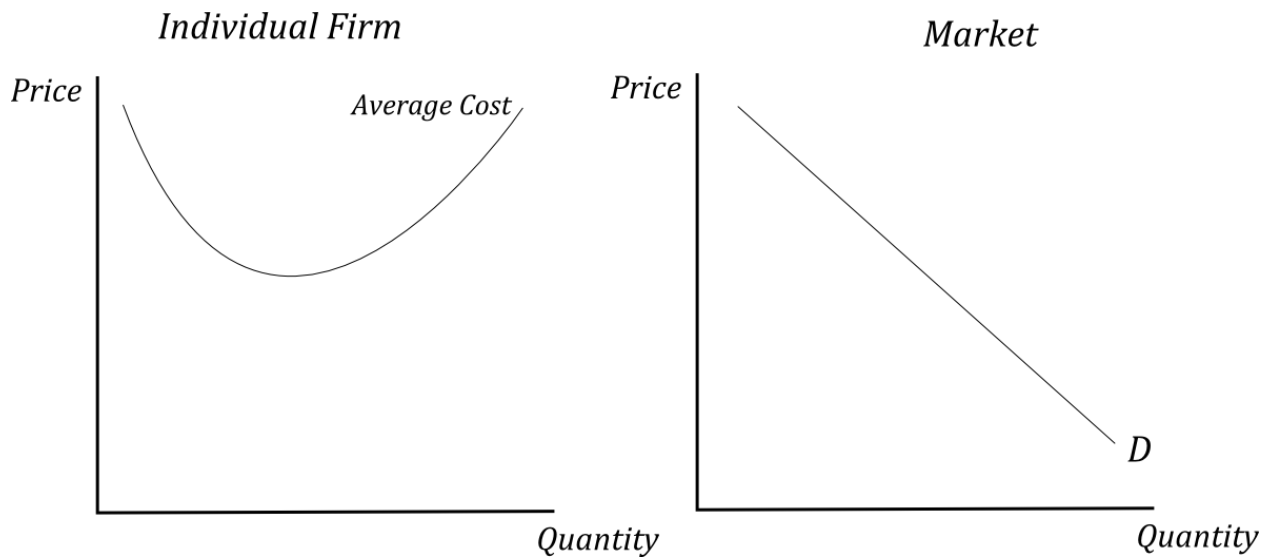
6. Draw a demand curve of your choosing that is **more elastic** than D_0 .



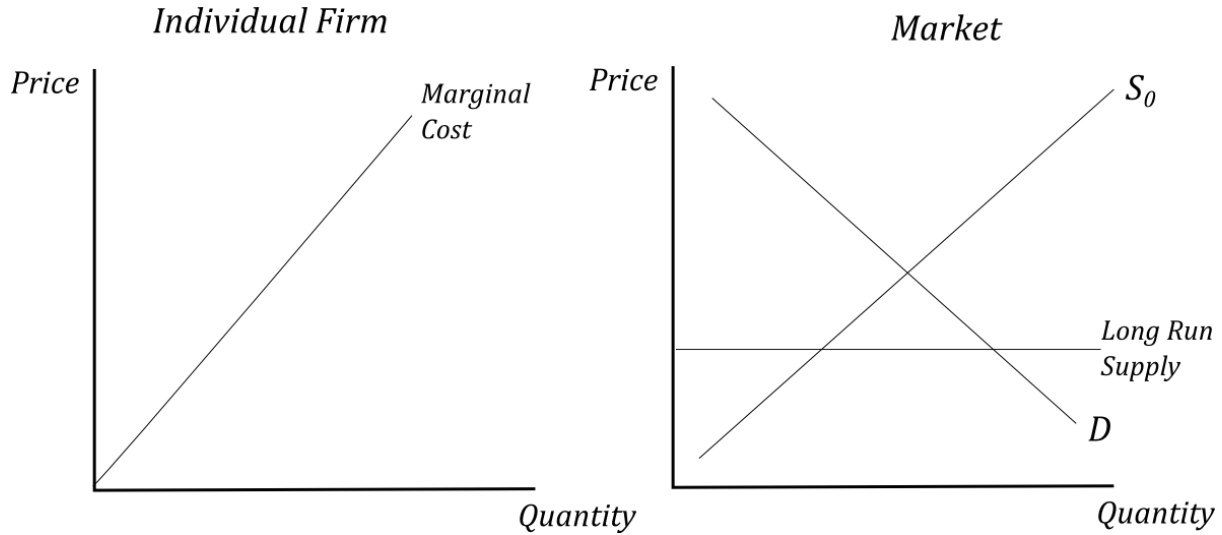
7. Complete the following sentences, using your diagrams from questions 5 and 6.

For a given change in the supply curve, the increase / decrease in the price is greater when demand is more inelastic / elastic. For a given change in the supply curve, the increase / decrease in the quantity supplied is greater when demand is more inelastic / elastic.

8. Draw the individual firm's marginal cost curve, and the long-run supply curve for the market. Label the quantities produced by the individual firm, and by the market.

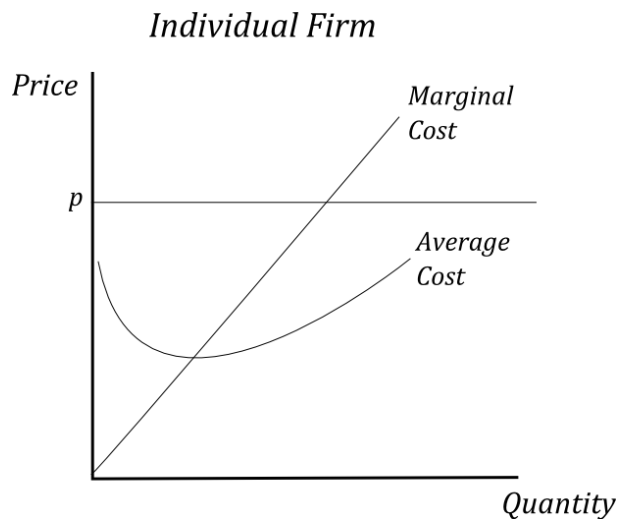


9. Draw an **average cost curve** for the individual firm, assuming it is the most efficient type of firm in the market. Also draw the short run **demand curve** faced by the **individual** firm. Illustrate how the short run supply curve S_0 shifts to achieve the long-run equilibrium. Complete the sentence below.

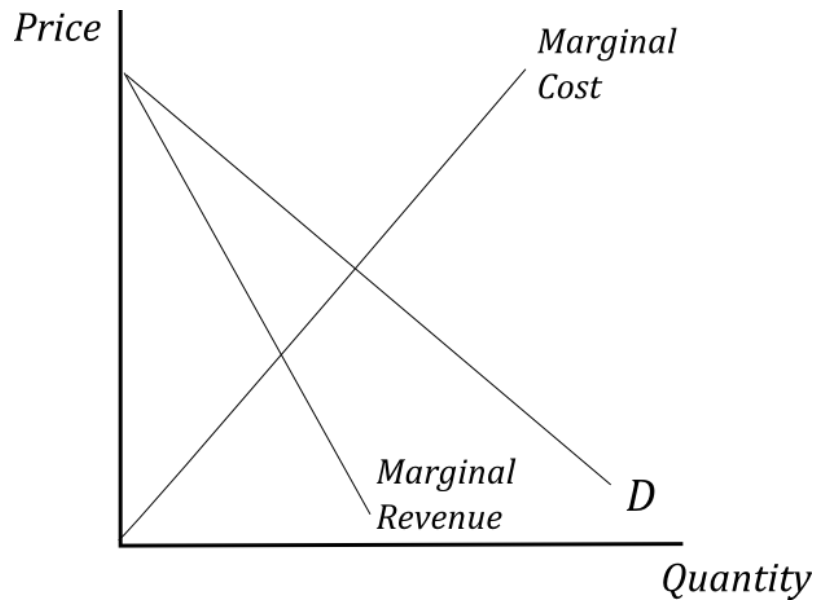


Since the price is above / below average cost, firms make positive / negative profit. This causes firms to enter / exit, which causes the short-run supply curve to shift left / right until the market is back at the long-run equilibrium.

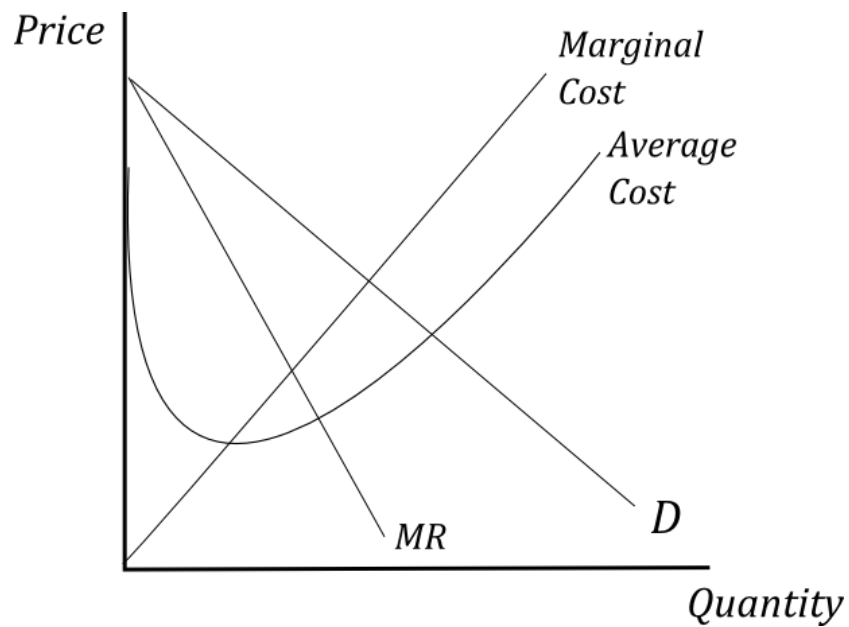
10. Indicate below the profit-maximizing quantity produced by a firm facing price p . Indicate on the vertical axis the average cost to produce each good, at this quantity. Draw a box around the area representing the firm's profit.



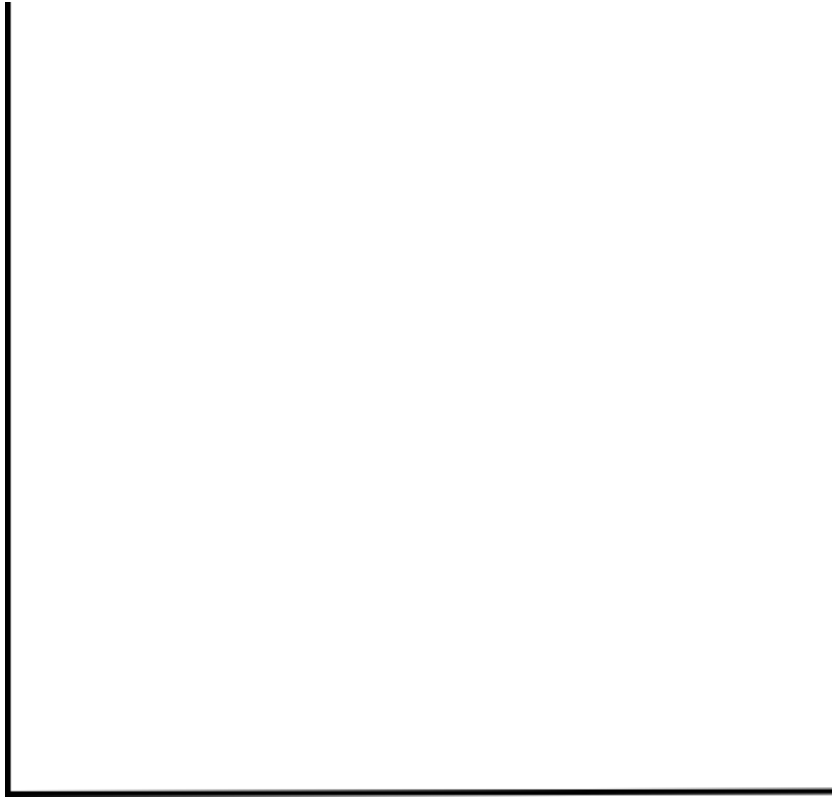
11. Now assume we have monopolistic competition, rather than perfect competition. Draw below the profit maximizing quantity and price. Then, assuming the firm is in a state of long-run equilibrium (so that it makes zero profits), draw an appropriate average cost curve.



12. In the diagram below, which is not in long-run equilibrium, indicate the profit-maximizing quantity and price, as well as the average cost of producing each unit. Draw a box around the area representing the firm's profits. Since profit is positive, more firms will enter. Show how this will affect the demand curve and the marginal revenue curve.



13. The World Cup is in Brazil this year. Use a supply-and-demand diagram to analyze how this will impact hotel prices. Your justifications are more important than your answers.



Write a few sentences justifying your decisions about:

1. Modeling this as perfect or monopolistic competition
2. Modeling this as a short-term or long-term problem
3. Which curve(s) are shifted by the world cup
4. The elasticity of supply and demand curves drawn

Also state briefly what happens to the market clearing quantity and price.