

Study Guide Part 2: Supply and Demand

Sample questions:

Q. A) Assume that the demand for cars is inelastic. What would happen to the quantity demanded/supplied and the price of cars if the price of steel rose?

B) What would happen if instead the demand was highly elastic?

C) Assume that Thailand is a major exporter of cars. What would happen to Thailand assuming the price of steel in Thailand rose, and the U.S. was a major importer of cars?

D) what if instead, the demand for cars was highly elastic?

Q. Explain why an increase in the Tax on cigarettes gains the Thai government a lot of revenue, but it doesn't reduce smoking much in the short run

Q. According to Keynes, a fall in inflation (P in $MV=PT$), leads to a rise in REAL wages. How does this lead to unemployment?

Q. The Thai government has promised to loan money to farmers who grow rice, and pay them 15,000 baht a ton for the rice if they can't sell it for more on the private market. This is a what? And what effect will it have on supply and demand? (this is a hard question)

Q. A) What would happen to the Thai economy if the worldwide demand for rice DROPPED?

B) What would happen to the Thai economy if the worldwide demand for PASTA (NOODLES) went up? (hint – is Pasta a substitute, or complement, to rice?)

Q. A) What would happen to Thai exports of Sugar if the Thai government imposed a binding price ceiling on sugar sold in Thailand?

*B) What if the Thai government also made it illegal to export Thai sugar? (hint – this makes the cost of Thai sugar **HIGHER** to the outside world)*

*C) Under what conditions would Thai sugar exporters smuggle sugar out of the country? (Hint: the elasticity of demand for sugar **OUTSIDE** Thailand)*

*Hurricane Katrina has had a major impact upon the American market for housing. Keeping in mind that most homes in America are built of wood, explain the following using supply and demand. **BE SURE TO LABEL YOUR GRAPHS CLEARLY.***

*4.1: A massive number of homes were destroyed when the city flooded. What effect did this have on the market for construction quality **wood** in the short run?*

4.2: What effect will the hurricane have on the market for construction quality wood in Thailand in the short run?

4.3: What will be the effect of the hurricane on the market for concrete in America?

4.4: In the long run (over the next few years), what would happen to the price of land that was suitable for growing trees?

MORE SAMPLE QUESTIONS TO COME..... (11:00 p.m. Dec. 5th 2016)