Supply and Demand Review

# Answer Key

1. Give an example of complementary goods and explain their relationship. These are goods that are typically purchased together, such as colored pencils and drawing pads. As the price increases for one this will cause the demand to decrease for the other.

2. What creates consumer demand? Advertising

3. SKIP FOR RIGHT NOW—We will cover elasticity later.

4. What does a demand schedule show? It is a table/chart that shows the price and quantity demanded at each of the possible prices.

5. What is the definition of the substitution effect? The price a good effects the demand of a similar product…specifically goods the can replaced one another. Ex. Markers and colored pencils.

6. Be able to make a demand curve and supply curve from a demand/supply curve.

7. Be able to read a demand curve graph and a supply curve graph.

8. What are the determinants (outside influences/factors) that cause a change in demand? 1)consumer income, 2)price of complement goods, 3) price of substitute goods, 4) # of consumers, 5) consumer tastes/preferences, 6) future price expectations

9. A shift from left to right shows what in demand? Supply? If demand or (supply) curve shifts to the right then there is an increase in demand or supply.

10. A shift from the right to left shows what in demand? Supply? If the demand (or supply) curve shifts to the left, then there is a decrease in demand (or supply).

11. Movement on a curve shows what in demand? Supply? If there is movement on the same demand curve, then this is a change in quantity demanded. If there is movement on the same supply curve, then this is a change in quantity supplied.

12. Define demand curve. A demand curve is downward sloping on the graph, because is showing an inverse relationship between the price and quantity. The curve also shows the various quantity demanded at each possible price.

13. What are the determinants (outside influences/factors) that cause a change in supply?1) technology, 2)productivity, 3) cost of resources, 4) # of sellers, 5) taxes/subsidies, 6) government regulations

14. Be able to read a supply curve graph.

15. Define supply. The Law of Supply states that as price increases the quantity supplied will also increase. The price and quantity supplied have a positive relationship—means that price and QS will move in the same direction.

16. Define supply curve. A supply curve is upward sloping on the graph demonstrating the positive relationship between price and QS. The curve also shows the various quantity supplied at each possible price.

17. Be able to analyze a supply and demand graph when either the demand and supply curves shift on the graph.

18. Define shortage. A shortage is when the quantity demanded is greater than the quantity supplied, usually due to a price ceiling.

19. Define equilibrium price. Equilibrium price (also called market clearing price) is the price where the quantity demanded is equal to the quantity supplied. On a graph, it is where the supply and demand curve intersect.

20. What is a price ceiling and how is it shown on supply and demand graph? A price ceiling is the MAXIMUM legal price that can be charged for a good/service. Price ceilings are set below equilibrium and cause a shortage. Ex. Rent control

21. What is a price floor and how is it shown on a supply and demand graph? A price floor is the LOWEST legal price that can be charged for a good/service. Price floors are set above equilibrium and cause a surplus. Ex. Minimum wage