1. “An increase in demand causes an increase in price, but an increase in price causes a decrease in demand. Increases in demand, therefore, largely cancel themselves out.” Comment. (2 points)
2. Do you agree or disagree with each of the following statements? Briefly explain your answers.
3. The price of a good rises, causing the demand for another good to fall. The two goods are therefore substitutes. (2 point)
4. During 2003, incomes rose sharply for most Americans. This change would likely lead to an increase in the prices of both normal and inferior goods. (2 points)
5. The price of good A falls. This causes an increase in the price of good B. Goods A and B are therefore complements. (2 point)
6. Begin with the respective market in equilibrium. Read each of the following situations, taking note of the market and the events that take place. Evaluate the impact on the market.
7. Market: Peanut Butter (6 points)

Event: The price of jelly increases and a drought reduces the peanut crop.

1. Market: Automobiles

Event: Consumers expect lower prices of automobiles in the future and new technology lowers automobile production costs. (6 points)

1. Market: Urban Housing

Event: More people move into the urban area from the rural areas (6 points)

1. Market: Delivery services

Event: Wages of delivery workers increase (6 points)

1. Suppose the demand and supply curves for eggs in the United States are given by the following equations: Qd=100-20P QS=10+40P where Qd=millions of dozens of eggs Americans would like to buy each year; QS=millions of dozens of eggs U.S. farms would like to sell each year; P=price per dozen eggs.
2. Fill in the following table: (2.5 points)



1. Use the information in the table to find the equilibrium price and equilibrium quantity. (2 point)
2. Graph the demand and supply curves, and identify the equilibrium price and quantity. (2 point)