



Microeconomics Unit 2 Study Guide

Supply and Demand

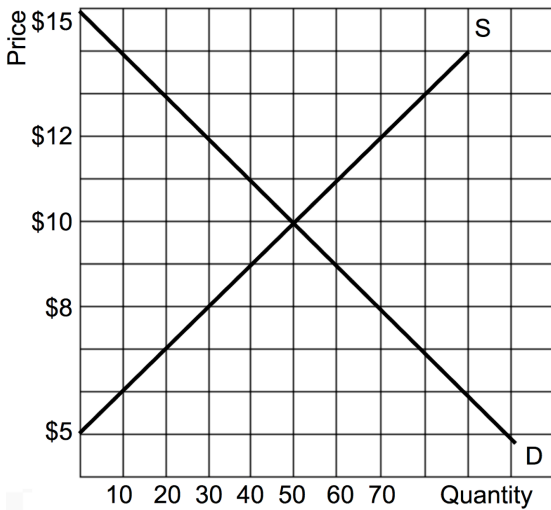
Topic 2.1- Demand ▶	Topic 2.2- Supply ▶						
<p>1. What is the law of demand?</p> <p style="text-align: right;">P↑ Qd _____ P↓ Qd _____</p> <p>2. Why is the market demand curve downward sloping?</p> <p>3. What are the five shifters of demand?</p> <p>4. Goods A and B are substitutes. An increase in the price of A will cause the demand for B to _____.</p> <p>5. Goods X and Y are complements. A decrease in the price of X will cause the demand for Y to _____.</p> <p>6. Good N is a normal good. A decrease in income will cause the demand for N to _____.</p> <p>7. Good R is an inferior good. A decrease in income will cause the demand for R to _____.</p>	<p>1. What is the law of supply?</p> <p style="text-align: right;">P↑ Qs _____ P↓ Qs _____</p> <p>2. Why is the market supply curve upward-sloping?</p> <p>3. What are the five shifters of supply?</p>						
	Topic 2.4- Price Elasticity of Supply (PES) ▶						
	<p>1. Identify the price elasticity of supply coefficient equation</p> <p>2. List 3 characteristics of goods with relatively inelastic supply.</p>						
Topic 2.3- Price Elasticity of Demand (PED) ▶	Topic 2.5- Other Elasticities ▶						
<p style="text-align: center;">Inelastic Demand Elastic Demand</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p>Price</p> <p>Quantity</p> </div> <div style="text-align: center;"> <p>Price</p> <p>Quantity</p> </div> </div> <p>3. Identify the price elasticity of demand equation.</p> <p>Coefficient for perfectly inelastic demand = _____ Coefficient for inelastic demand = _____ Coefficient for unit elastic demand = _____ Coefficient for elastic demand = _____ Coefficient for perfectly elastic demand = _____</p> <p>4. Use the total revenue test to fill in the blanks.</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;">Inelastic Demand</td> <td style="width: 50%;">Elastic Demand</td> </tr> <tr> <td>Price ↑, TR _____</td> <td>Price ↑, TR _____</td> </tr> <tr> <td>Price ↓, TR _____</td> <td>Price ↓, TR _____</td> </tr> </table>	Inelastic Demand	Elastic Demand	Price ↑, TR _____	Price ↑, TR _____	Price ↓, TR _____	Price ↓, TR _____	<p>1. What is cross-price elasticity of demand (XED)?</p> <p>2. Identify the XED equation.</p> <div style="text-align: center;"> </div> <p>3. What is income elasticity of demand (YED)?</p> <p>4. Identify the YED equation.</p> <div style="text-align: center;"> </div> <p>5. List 3 characteristics of goods with relatively inelastic demand.</p>
Inelastic Demand	Elastic Demand						
Price ↑, TR _____	Price ↑, TR _____						
Price ↓, TR _____	Price ↓, TR _____						



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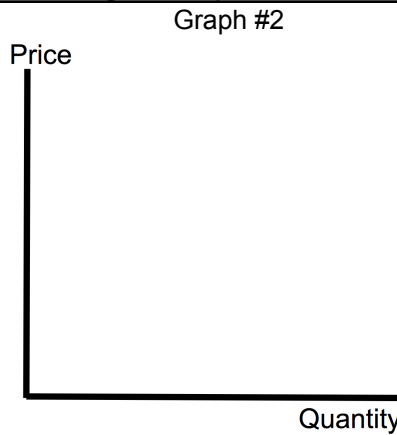
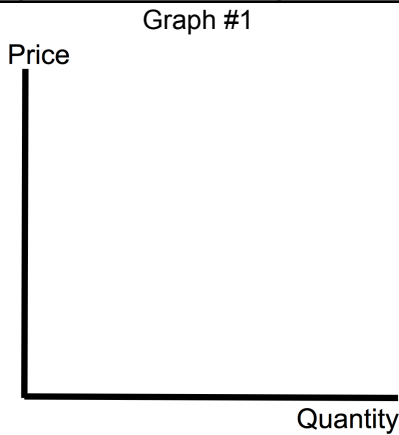
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Topic 2.6- Equilibrium and Consumer and Producer Surplus ▶



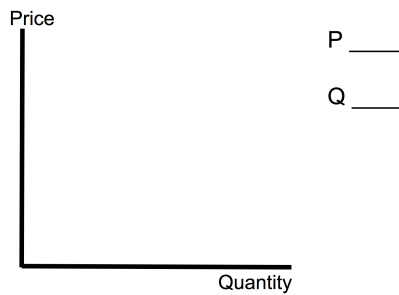
1. Define consumer surplus (CS).
2. Define producer surplus (PS).
3. Define deadweight loss (DWL).
4. Calculate the CS at the equilibrium price. Show your work.
5. Calculate the CS if the price was \$12. Show your work.
6. Calculate the deadweight loss if the market produced only 20 units.

Topic 2.7- Market Disequilibrium and Changes in Equilibrium ▶

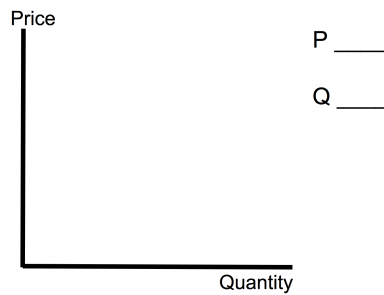


1. Draw a shortage on Graph #1. Label price (P_1), quantity supplied (Q_s), and quantity demanded (Q_d). Shade in CS, PS, and DWL.
2. Draw a surplus on Graph #2. Label price (P_2), quantity supplied (Q_s), and quantity demanded (Q_d). Shade in CS, PS, and DWL.
3. What is the difference between a change in demand and a change in quantity demanded?

4. Draw a demand decrease

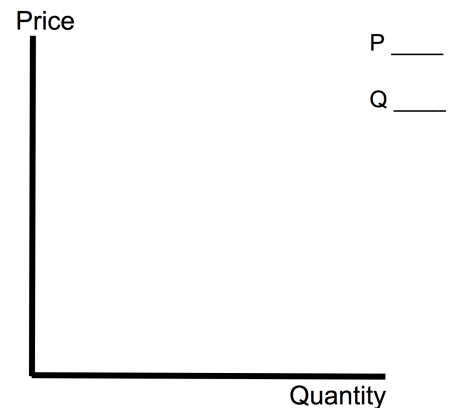


5. Draw a demand increase

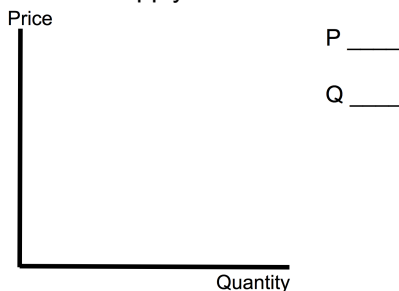


8. What is the double shift rule? ▶

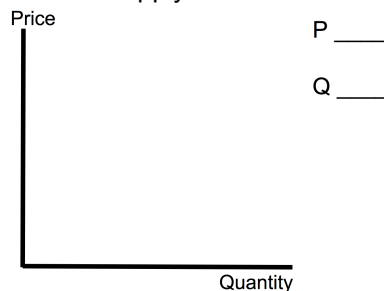
9. Draw an increase in demand AND an increase in supply. What happens to the equilibrium price and quantity?



6. Draw a supply decrease



7. Draw a supply increase





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Topic 2.8- Government Intervention ▶

1. What is a price ceiling?

2. What is a price floor?

3. A binding price ceiling must go _____ equilibrium and results in a _____. A binding price floor must go _____ equilibrium.

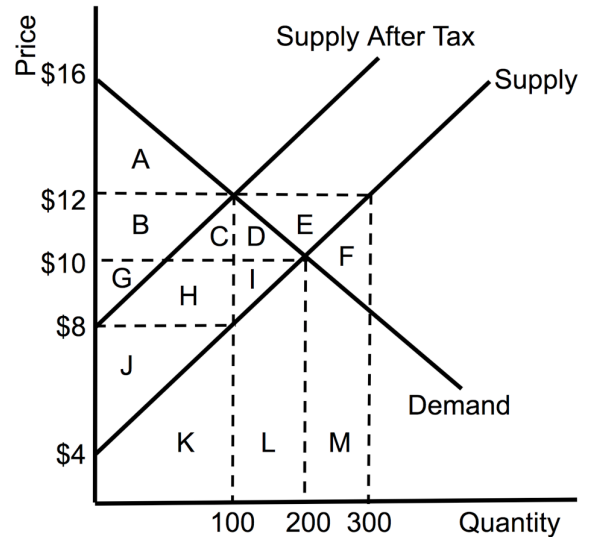
4. What is a subsidy?

Complete the following assuming the equilibrium price is \$10

5. Identify the consumer surplus (CS)
6. Identify the producer surplus (PS)
7. Identify the CS if a price ceiling is placed at \$12
8. Identify the CS if a price floor is placed at \$12

Identify the following after the tax is imposed ▶

9. The tax per unit
10. CS after tax
11. PS after tax
12. Deadweight loss
13. Total tax revenue
14. Total spending by buyers
15. Total revenue to sellers
16. Total amount of tax buyers pay
17. Total amount of tax sellers pay
18. Is the demand curve between \$12 and \$10 elastic, inelastic, or unit elastic? Explain.
19. Calculate the elasticity of supply coefficient as price increases from \$10 to \$12. Show your work.



Identify if buyers or sellers pay more of a tax in the following situations.

20. Demand is more inelastic than supply.
21. Demand and supply have the same elasticity.
22. Supply is more inelastic than demand.

Topics 2.9- International Trade and Public Policy ▶

Calculate the following at the equilibrium price.

1. Consumer surplus
2. Producer surplus
3. Total surplus

Calculate the following if this country buys rice from other countries at the world price of \$5. Show your work.

4. Quantity produced domestically
5. Quantity imported
6. Consumer surplus
7. Producer surplus

Identify the following if the government places a tariff of \$1 on foreign rice. Show your work.

8. Consumer surplus
9. Tariff revenue
10. Deadweight loss

The graph below shows the domestic market for rice.

