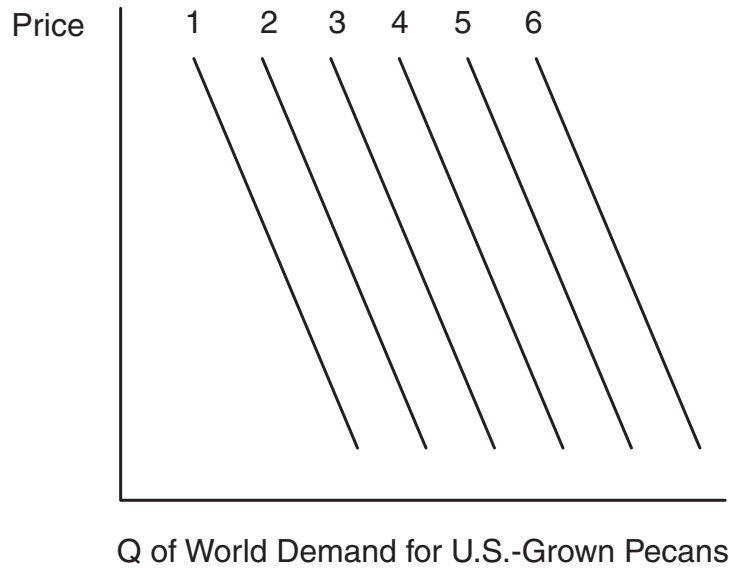


ACTIVITY 6.1

Shifts in Demand Curves

Part I



Instructions: The following are fictitious headlines about the pecan market. In each case, decide if the information will cause a change in the current market demand for U.S. pecans sold worldwide. If so, decide if it is an increase or a decrease, and write the correct answer. For example, if you think Headline 1 means there will be a decrease in demand, write “decrease” in the first blank. If the event causes no change in demand, write “no change.” Assume that the demand at the beginning of the activity is at Curve 3. For each headline, write the number of the demand curve after the headline’s impact.

1. Lunar New Year approaches, when Chinese households love to eat pecans.

Demand _____ Curve _____

2. The price of corn syrup, which consumers use with pecans to make pecan pies, has risen.

Demand _____ Curve _____

3. Price of walnuts decreases.

Demand _____ Curve _____

ACTIVITY 6.1 (Continued)

4. The household income for Chinese families increases for the third year in a row.

Demand _____ Curve _____

5. Price of pecans increases dramatically.

Demand _____ Curve _____

6. Due to new trade agreements, U.S. pecans can now be sold in more countries.

Demand _____ Curve _____

7. Pecan prices are expected to be higher next year (pecans freeze well).

Demand _____ Curve _____

8. Famous celebrities are seen eating pecans during an awards ceremony.

Demand _____ Curve _____

Part II

Put each change in demand from Part I into one of the following categories, based on the reason for the change. Write the number of the headline(s) next to the reason for the change in demand. Some categories may have more than one headline number, and an event that did not change demand should not be listed with any of the determinants.

_____ A change in consumer tastes

_____ A change in consumer incomes

_____ A change in the number of consumers in the market

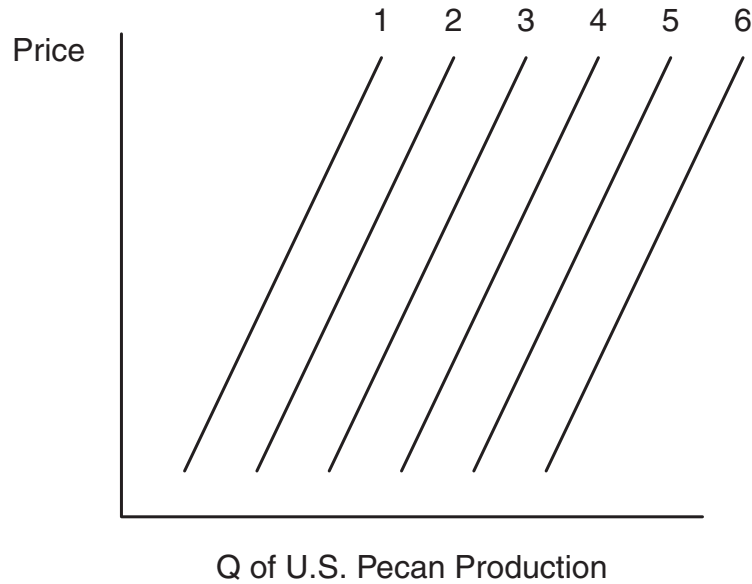
_____ A change in the price of a substitute good

_____ A change in the price of a complementary good

_____ A change in consumers' price expectations

ACTIVITY 6.2

Reasons for Shifts in Supply Curves



Part I

Instructions: The following are fictitious headlines about the pecan market. In each case, decide if the information will cause a change in the current market supply for U.S. pecans sold worldwide. If so, decide if it is an increase or a decrease, and write the correct answer. For example, if you think Headline 1 means there will be a decrease in supply, write “decrease” in the first blank. If the event causes no change in supply, write “no change.” Assume that the supply at the beginning of the activity is at Curve 3. For each headline, write the number of the supply curve after the headline’s impact.

1. U.S. farmers start cutting down their pecan groves to make more land available to plant more profitable crops.

Supply _____ Curve _____

2. The price of pecan-shelling machines rises dramatically.

Supply _____ Curve _____

3. Price of pecans falls as more consumers begin craving hazelnuts.

Supply _____ Curve _____

ACTIVITY 6.2 (Continued)

4. Scientists successfully produce genetically modified pecan trees that can produce twice as many pecans per tree.

Supply _____ Curve _____

5. Engineers develop machines that shake nuts from the trees at harvest and sweep them off the ground.

Supply _____ Curve _____

6. The U.S. government provides subsidies to pecan producers because pecan consumption has been linked to lower heart disease.

Supply _____ Curve _____

7. A flood destroys many pecan groves in Georgia.

Supply _____ Curve _____

8. Pecan producers expect lower pecan prices due to declining demand for nuts.

Supply _____ Curve _____

Part II

Put each change in supply from Part I into one of the following categories, based on the reason for the change. Write the number of the headline next to the reason for the change in supply. Some categories may have more than one headline letter, and an event that did not change supply should not be listed with any of the determinants.

_____ A change in the cost of productive resources

_____ A change in technology

_____ A change in the number of sellers in the market

_____ A change in profit opportunities from producing other products

_____ A change in market price expectations

_____ A change in a government subsidy or tax

ACTIVITY 6.3**Changes in Supply and Demand Change Market Price and Quantity**

Economists studied the retail gourmet coffee market to find out how many millions (M) of 16-ounce cups of premium coffee consumers would be willing to buy each day and how many 16-ounce cups sellers would be willing to sell each day at various prices. This research showed that:

Table 6.1

If Price of a Cup of Coffee Was	Consumers Would Be Willing to Buy	Producers Would Be Willing to Sell
\$2.25	55M	25M
\$2.50	40M	40M
\$2.75	25M	55M
\$3.00	10M	70M
\$3.25	5M	85M
\$3.50	1M	90M

1. According to Table 6.1, the market-clearing (or equilibrium) price for coffee is _____ and at this price the number of cups of coffee bought and sold is _____.
2. How do you know this is the market-clearing price?
3. Assume that scientists have discovered a previously unknown ingredient in coffee that may reverse male pattern baldness and restless leg syndrome. As a result, consumers want to buy 30 million more cups of coffee per day at every price. For example, at \$3.25 per cup people now want to buy 35 million units rather than five million. Complete Table 6.2, showing the amount that people will buy at each price. What is the new market-clearing price? _____ How many cups will be bought and sold at this price? _____

ACTIVITY 6.3 (Continued)**Table 6.2**

If the Price of a Cup of Coffee Was	Consumers Would Be Willing to Buy	Producers Would Be Willing to Sell
\$2.25	?M	25M
\$2.50	?M	40M
\$2.75	?M	55M
\$3.00	?M	70M
\$3.25	?M	85M
\$3.50	?M	90M

4. Now assume that a mysterious microorganism invades coffee plants in two major coffee-producing countries, significantly reducing plant yield. Because of this, sellers are willing to sell 30 million fewer cups of coffee per day at every price. For example, at \$2.50 per cup sellers are willing to sell only 10 million units rather than 40 million. In Table 6.3, show the new amounts that people will sell at each price. What is the new market-clearing (or equilibrium) price, assuming the demand schedule from Question 3 is used again? ____ How many cups will be bought and sold at this price? _____

Table 6.3

If the Price of a Cup of Coffee Was	Consumers Would Be Willing to Buy	Producers Would Be Willing to Sell
\$2.25	85M	?M
\$2.50	70M	?M
\$2.75	55M	?M
\$3.00	40M	?M
\$3.25	35M	?M
\$3.50	31M	?M