

ECON 101 TUTORIAL 1**Short Answer**

1. Suppose we are analyzing the market for hot chocolate. Graphically illustrate the impact each of the following would have on demand or supply. Also show how equilibrium price and equilibrium quantity would change.
 - a. Winter starts, and the weather turns sharply colder.
 - b. The price of tea, a substitute for hot chocolate, falls.
 - c. The price of cocoa beans decreases.
 - d. The price of whipped cream falls.
 - e. A better method of harvesting cocoa beans is introduced.
 - f. The Surgeon General of the U.S. announces that hot chocolate cures acne.
 - g. Protesting farmers dump millions of gallons of milk, causing the price of milk to rise.
 - h. Consumer income falls because of a recession, and hot chocolate is considered a normal good.
 - i. Producers expect the price of hot chocolate to increase next month.
 - j. Currently, the price of hot chocolate is \$0.50 per cup above equilibrium.

Multiple Choice

Identify the choice that best completes the statement or answers the question.

- _____ 2. What would happen to the equilibrium price and quantity of lattes if consumers' incomes rise and lattes are a normal good?
 - a. Both the equilibrium price and quantity would increase.
 - b. Both the equilibrium price and quantity would decrease.
 - c. The equilibrium price would increase, and the equilibrium quantity would decrease.
 - d. The equilibrium price would decrease, and the equilibrium quantity would increase.
- _____ 3. If macaroni and cheese is an inferior good, what would happen to the equilibrium price and quantity of macaroni and cheese if consumers' incomes rise?
 - a. Both the equilibrium price and quantity would increase.
 - b. Both the equilibrium price and quantity would decrease.
 - c. The equilibrium price would increase, and the equilibrium quantity would decrease.
 - d. The equilibrium price would decrease, and the equilibrium quantity would increase.
- _____ 4. If consumers often purchase muffins to eat while they drink their lattes at local coffee shops, what would happen to the equilibrium price and quantity of lattes if the price of muffins falls?
 - a. Both the equilibrium price and quantity would increase.
 - b. Both the equilibrium price and quantity would decrease.
 - c. The equilibrium price would increase, and the equilibrium quantity would decrease.
 - d. The equilibrium price would decrease, and the equilibrium quantity would increase.

Name: _____

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- _____ 5. If consumers view cappuccinos and lattés as substitutes, what would happen to the equilibrium price and quantity of lattés if the price of cappuccinos falls?
- Both the equilibrium price and quantity would increase.
 - Both the equilibrium price and quantity would decrease.
 - The equilibrium price would increase, and the equilibrium quantity would decrease.
 - The equilibrium price would decrease, and the equilibrium quantity would increase.
- _____ 6. If scientists discover that steamed milk, which is used to make lattés, prevents heart attacks, what would happen to the equilibrium price and quantity of lattés?
- Both the equilibrium price and quantity would increase.
 - Both the equilibrium price and quantity would decrease.
 - The equilibrium price would increase, and the equilibrium quantity would decrease.
 - The equilibrium price would decrease, and the equilibrium quantity would increase.
- _____ 7. What would happen to the equilibrium price and quantity of lattés if coffee shops began using a machine that reduced the amount of labor necessary to produce them?
- Both the equilibrium price and quantity would increase.
 - Both the equilibrium price and quantity would decrease.
 - The equilibrium price would increase, and the equilibrium quantity would decrease.
 - The equilibrium price would decrease, and the equilibrium quantity would increase.
- _____ 8. Pens are normal goods. What will happen to the equilibrium price of pens if the price of pencils rises, consumers experience an increase in income, writing in ink becomes fashionable, people expect the price of pens to rise in the near future, the population increases, fewer firms manufacture pens, and the wages of pen-makers increase?
- Price will rise.
 - Price will fall.
 - Price will stay exactly the same.
 - The price change will be ambiguous.
- _____ 9. New cars are normal goods. What will happen to the equilibrium price of new cars if the price of gasoline rises, the price of steel falls, public transportation becomes cheaper and more comfortable, auto-workers accept lower wages, and automobile insurance becomes more expensive?
- Price will rise.
 - Price will fall.
 - Price will stay exactly the same.
 - The price change will be ambiguous.