

Please Answer all questions below.

**Check Your Understanding**

- What is the difference between a *market* and an *economy*?
- According to the two criteria necessary for demand to exist, determine whether you personally have a demand for the following goods and services:
  - a luxury car           • a hammer
  - a pizza                 • a post-secondary education
  - a computer
- a) Suppose the price of milk falls. What will happen to quantity demanded? Which of the two reasons, income or substitution, do you think best explains the change in quantity demanded? Why?
- b) Suppose the price of a brand of orange juice falls. Which of the two reasons, income or substitution, do you think best explains the change in quantity demanded? Why?
4. Explain why a supply curve normally rises from the bottom left to the top right on a graph.

**Check Your Understanding**

- Copy Figure 4.10 (below) into your notebook and fill in the Surplus/Shortage column. What is the equilibrium price?
  - Draw a demand and supply graph for this information. Shade in the area that represents a surplus in this market and the area that represents a shortage when market prices of \$1.80 and \$1.00 are considered.
- Economists are not generally supportive of governments interfering in markets in order to set prices. Using the example in question 1, explain what undesirable results might occur if the school simply declared a price for cafeteria foods.

Price	Quantity Demanded	Quantity Supplied	Surplus/Shortage
\$2.00	100	190	
\$1.80	120	180	
\$1.60	140	170	
\$1.40	160	160	
\$1.20	180	150	
\$1.00	200	140	
\$0.80	220	130	

**Figure 4.10** Demand and supply for hot dogs in a school cafeteria.