**Supply & Prices homework questions**

Name and date submitted (3 pts):

Resources: Refer to the textbook and the class lecture slides posted on the class page.

Instructions: Create space and enter your answers in the Word document below, and then submit as an email attachment. (10 questions, 100 possible points).

1. Definitions (p. 65)
2. What is the definition of “supply” as stated in your textbook?
3. What is the “law of supply” as given in your textbook?
4. Supply curves (p. 66)
5. Examine Fig. 4-2 in your book. At a price of $1.40 each, how many candy bars are candy suppliers willing to produce? Please note the quantities are in “thousands”.
6. Why would candy companies supply fewer candy bars at a price of only $.60 each? The answer may seem obvious, but I’m looking for a well thought-out answer which explains this.
7. Shifts in supply curves (p. 67-71)
8. Refer to Fig. 4-3. Give three (3) factors which might cause the supply curve to shift to the right as shown in this diagram.
9. How could “Changes in Technology” lower the price of candy bars? There are many ways. Try to list 3 or 4 examples.
10. How could “Changes in Production Costs” lower the price of candy bars? Again, there are many examples. Think about this and give me 3 or 4 good examples.
11. How could “Changes in the Price of Related Goods” lower the price of candy bars? First, think of a Related Product”; then give a well-reasoned answer.
12. Market equilibrium (p. 71)
13. Define what is meant by “market equilibrium”. Your book has a definition on p. 71, but think about it and state it in your own words.
14. What is the equilibrium price of candy bars and quantity produced in Fig.4-9?
15. Surpluses and Shortages (p. 74-78)

This is one of the most important topics in this chapter. The next 2 questions will require you to read pages 74-78, think it over, and summarize it in your own words:

* 1. How does a free-market system adjust itself to a surplus of candy bars? In other words, how do buyers and sellers naturally move the price back to the equilibrium?
  2. Now take the other case: How does a free-market system adjust to a shortage of candy bars? In other words, how do buyers and sellers – by pursuing their own self-interests – move the price back to equilibrium?

Note: questions #6-9 refer to the lecture slides posted on the class page.

1. Profits
   1. Refer to slide #5. Let’s say your chocolate covered jalapeno business had a fantastic February! Your Sales Revenue was $5,000, your Cost of Production was $2,500, and your Overhead was $500.
2. What was your Gross Profit for February?
3. What was your Net Profit?
4. What was your Net Profit as a percentage of Sales?
   1. List at least five (5) reasons why a business firm needs profits. In other words, what are profits used for? (hint: see “Profits benefit society” slide)
5. Equilibrium
   1. Refer to slide #12. What is the equilibrium price of strawberries and quantity produced?
   2. At the “surplus” price of $2.50 per kg, how much of a surplus of strawberries results? Please note the quantities are in “millions”.
   3. At the “shortage” price of $1.50 per kg, how much of a shortage of strawberries results? Again, please note the quantities are in “millions”.
6. Refer to slide #15. Long term, how will strawberry suppliers react to a surplus of strawberries on the market? How will this benefit consumers? Think this one over….
7. Refer to slide #14. Long term, how will strawberry suppliers react to a shortage of strawberries on the market? How will this benefit consumers? Think it over before answering....!



1. Revenue and Profit brain teaser:

*“You can sell 1,000 chocolate-covered jalapenos a day in the U.S. for $1 each. Since your total cost is $800 a day, you make $200 profit per day. One day you learn of an opportunity to sell 1,000 additional chocolate-covered jalapenos per day in Brazil for $.50 each. If you boosted production to 2,000 jalapenos per day, your total production cost would rise to $1,200, which averages out to $.60 per jalapeno. Should you sell $.60 jalapenos to the Brazilians for only $.50? (Assume you can still sell 1,000 jalapenos per day in the U.S. for $1 each)”. Why? Explain.*



Think this through carefully – the answer may not be obvious.