

Ch. 6 Reading Notes

Sections 4-6

Section 4: (Shifts in Demand and Supply Handout)

Section 5:

1. Identify the four roles prices play in a modern mixed economy. For each role,
 - a. Write a one or two sentence summary that includes a specific example.
 - b. Create a simple symbol that illustrates your summary.
2. Explain the roles of demand and supply in changing gasoline prices after hurricanes Katrina and Rita.

Section 6:

1. Complete a table about the two types of price controls discussed in the section

| Price control | Why Enacted | Example(s) | Economic Result |
|---------------|-------------|------------|-----------------|
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2. Create a simple drawing illustrating the difference between a price floor and a price ceiling. Include these terms in your drawing: *equilibrium price, price floor, price ceiling, shortage, surplus*.
3. Explain why a government might use rationing and what some effects of rationing could be.

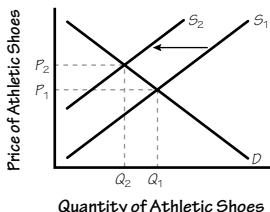
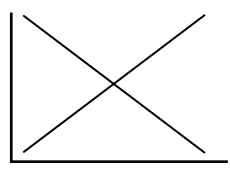
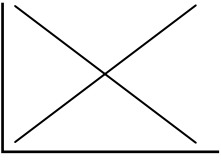
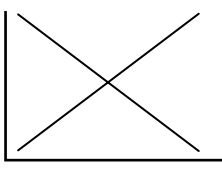
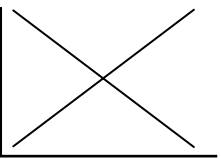
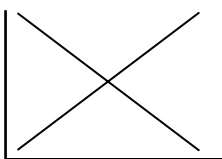
Section 4 Reading Notes

Analyze the effects of each news headline about the athletic shoe market. For each event,

- label the axes, demand curve, and supply curve.
- explain the effect of the event on the demand or supply curve for *athletic shoes*.
- graph the resulting change in equilibrium price and equilibrium quantity of athletic shoes.

The first headline is completed for you.

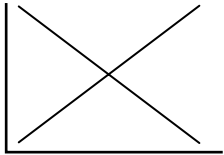
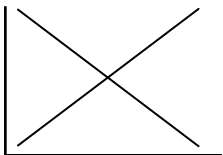
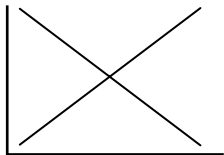
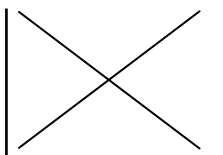
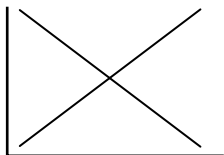
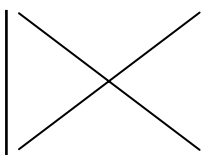
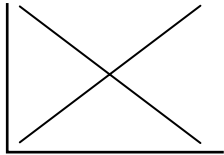
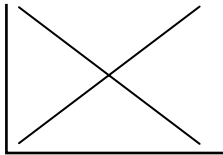
Effect of Headlines on the Athletic Shoe Market

| | |
|---|---|
| <p>1 Price of Rubber Increases Dramatically</p>  <p style="text-align: center;">Quantity of Athletic Shoes</p> <p><i>Because of an increase in the cost of inputs, the supply curve will decrease, or shift to the left. Equilibrium price increases. Equilibrium quantity decreases.</i></p> | <p>2 Movie Increases Popularity of Athletic Shoes</p>  |
| <p>3 Price of Sport Sandals Drops Drastically</p>  | <p>4 Government Sets Price Ceiling Below Equilibrium Price to Help Consumers Save Money</p>  |
| <p>5 Two New Athletic Shoe Companies Enter the Market—Production Begins Today</p>  | <p>6 Consumers Worry Price of Athletic Shoes May Increase Next Month</p>  |

Analyze the effects of each news headline about events affecting a variety of markets. Identify the market indicated in parentheses before conducting your analysis. For each event,

- label the axes, demand curve, and supply curve.
- explain the effect of the event on either the demand or the supply curve.
- graph the resulting change in equilibrium price and equilibrium quantity.

Effect of Headlines on Various Markets

| | |
|--|---|
| <p>7 Insects Kill Half the World’s Tomato Crop (tomato market)</p>  | <p>8 Recession Hits—Many Consumers Lose Jobs (movie ticket sales market)</p>  |
| <p>9 Price of Computer Chips Tumbles (computer market)</p>  | <p>10 Price of Salmon Skyrockets (sea bass market)</p>  |
| <p>11 Government Places Excise Tax on Cigarettes to Discourage Smoking (cigarette market)</p>  | <p>12 Government Sets Price Floor Above Equilibrium Price to Help Farmers (milk market)</p>  |
| <p>13 Price of DVD Players Plummet (DVD market)</p>  | <p>14 New, More Efficient Assembly Line Technology Introduced (automobile market)</p>  |