

Summer 2020 – Individual Assignment 1 – (15%)

ECON252 – Macroeconomics- O1

Name	ID



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Problem 1: (30 points)

The following table represents information about the market for pick-up trucks. The quantity demanded and the quantity supplied are measured in millions.

Price of truck	Quantity demanded of trucks per year	Quantity supplied of trucks per year	New quantity supplied of trucks per year
\$20000	20	14	
25000	18	15	
30000	16	16	
35000	14	17	
40000	12	18	

1. What are the equilibrium price and equilibrium quantity in the market for trucks?
2. If the market price of a truck is \$35000 per truck, will there be a shortage or a surplus? Why? Calculate it.
3. If the market price of a truck is \$20000 per truck, will there be a shortage or a surplus? Why? Calculate it.
4. Suppose that the price of steel, an important input in manufacturing trucks, increased. As a result, the quantity supplied of trucks has decreased by 3 million trucks per year at any given price. Fill in the blanks column 4 in the table and indicate the new equilibrium price and equilibrium quantity.

Problem 2: (30 points)

The market for pizza has the following demand and supply schedules:

Price	Quantity Demanded	Quantity Supplied
\$4.00	135	26
\$5.00	104	53
\$6.00	81	81
\$7.00	68	98
\$8.00	53	110
\$9.00	39	121

1. Graph the demand and supply curves.
2. What is the equilibrium price and quantity in this market?
3. If the actual price in this market was above the equilibrium price, explain how do we converge to equilibrium?
4. If the actual price in this market was below the equilibrium price, explain how do we converge to equilibrium?

Problem 3: (20 points)

Does a change in consumers' tastes lead to a movement along the demand curve or a shift in the demand curve? Does a change in price lead to a movement along the demand curve or a shift in the demand curve? **Explain your answer for each of these cases.**



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Problem 4: (20 points)

Following are four graphs and four market scenarios, each of which would cause a shift in either the demand or the supply curve of plastic bottled water. For each scenario, do the necessary changes on the graphs below by showing the new market equilibrium reached. **You are also expected to explain what drives the change in equilibrium.**

- An improvement of the water bottling industry occurred lately.
- The number of consumers for bottled water increased.
- The price of plastic has increased.
- Assume that plastic bottled water is an inferior good, and that the Kuwaiti economy witnessed an increase in the average household income from 20,000KD to 25,000 KD.

