

American University of the Middle East

ECON252

Name

Professor

Date

American University of the Middle East

Problem 1

1. The equilibrium price is \$ 30,000

The equilibrium quantity is 16 million trucks

2. If the market price is \$ 35,000, there will be a surplus. The number of trucks that are demanded at that price is 14 million while the number of trucks supplied to the market is 17 million. A price that is more than the equilibrium price leads to a decrease in demand and an increase in supply.

The surplus quantity is the quantity supplied less quantity demanded.

Which is, 17 million less 14 million

Surplus = $(17-14)$ million

= 3 million trucks

3. If the market price is \$ 20,000, there will be a shortage. The number of trucks that are demanded at that price is 20 million while the number of trucks supplied to the market is 14 million. A price that is low than the equilibrium price leads to an increase in demand and a decrease in supply.

The shortage in quantity is the quantity supplied less quantity demanded.

Which is, 14 million less 20 million

Surplus = $(14-20)$ million

= 6 million trucks

4.

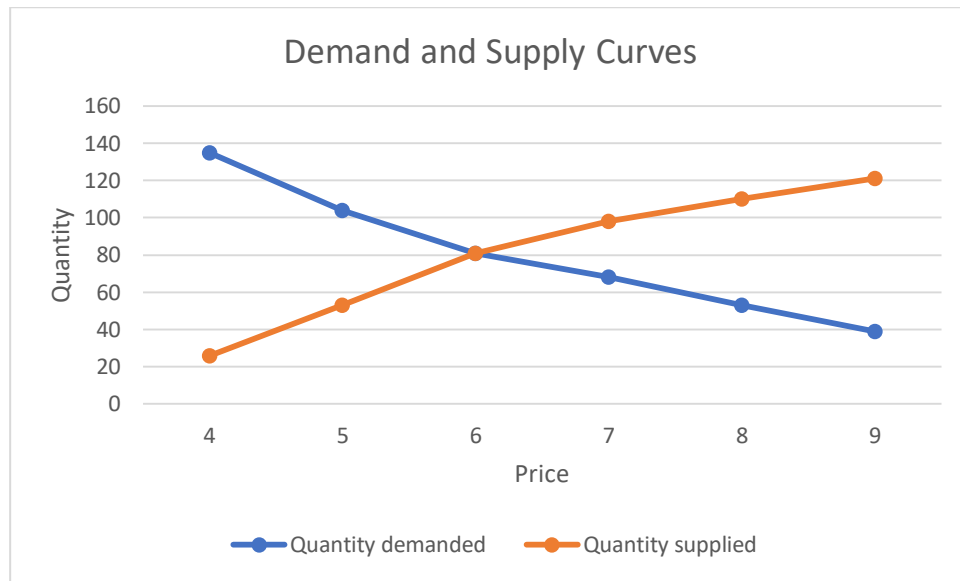
Price of trucks in \$	Quantity demanded of trucks per year	Quantity supplied of trucks per year	New Quantity supplied of trucks per year
20,000	20	14	11
25,000	18	15	12
30,000	16	16	13
35,000	14	17	14
40,000	12	18	15

The new equilibrium price is \$ 35,000

The new equilibrium quantity is 14 million trucks per year

Problem 2

1.



2. The market equilibrium price is \$6 and the market equilibrium quantity is 81 pizza.
3. If the actual price in this market was above the equilibrium price, the pizza suppliers will increase the supply of pizza to the market and the demand for pizza will decrease. An increase in supply will make the suppliers lower their prices to the market price to attract customers. A decrease in price will eventually lower the supply of pizza to the market demand hence the equilibrium point.
4. If the actual price in this market was below the equilibrium price, the pizza suppliers will decrease the supply of pizza to the market and the demand for pizza will increase. A decrease in supply will make the suppliers raise their prices to market prices since the demand is high. An increase in price will eventually lower the demand of pizza to the market demand hence the equilibrium point.

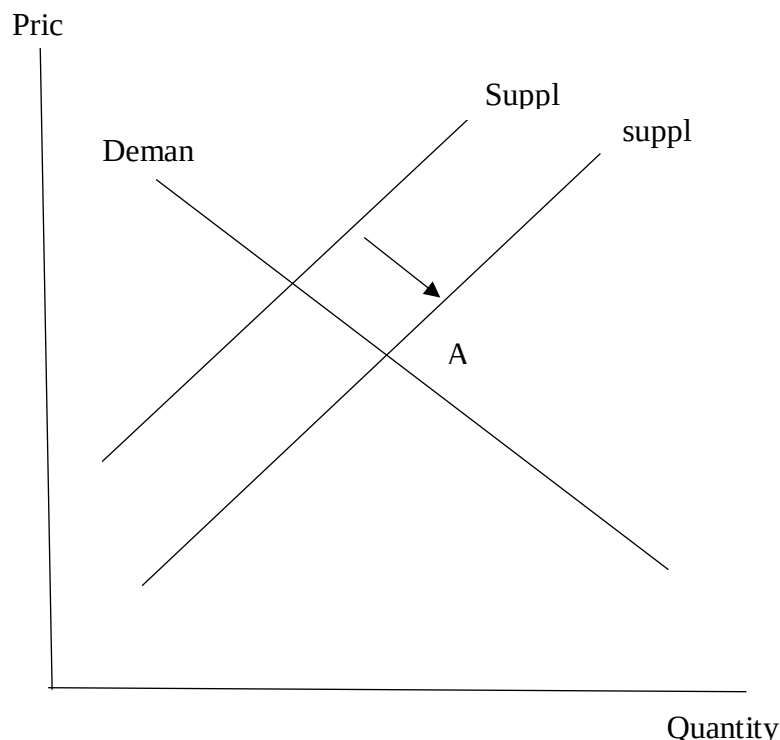
Problem 3

A change in consumers' tastes leads to a shift in the demand curve. A change in the taste of the consumers will either make them buy more or less of a good. A change in the taste of the consumers in favor of the commodity will shift the demand curve to the right. The consumers will buy more of the product at the same price. A negative change in the taste of consumers will make them buy less of the commodity at the same price.

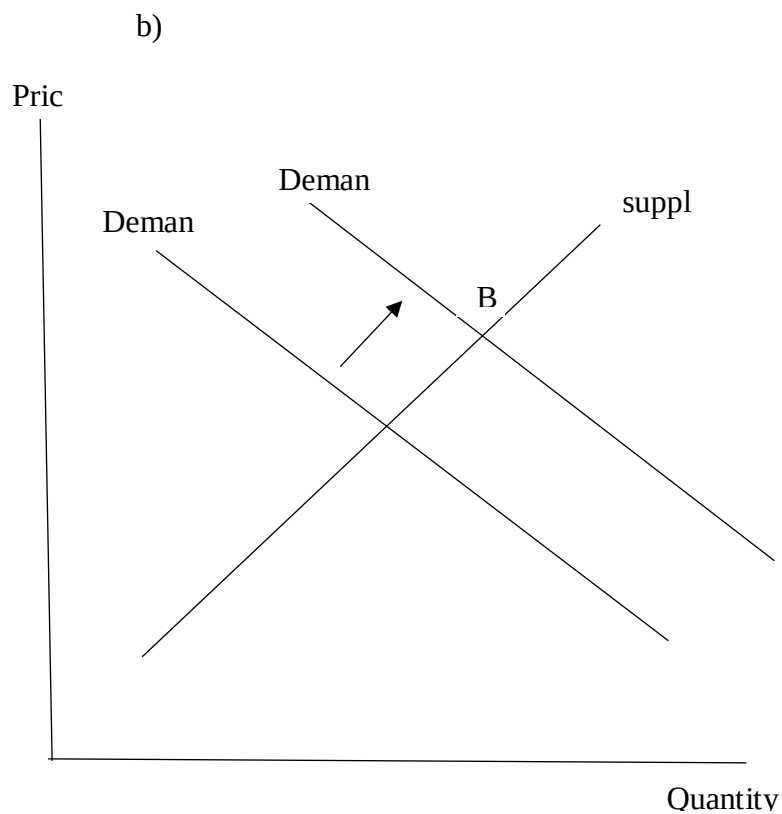
A change in price leads to a movement along the demand curve. When the price of a commodity changes, the demand for that commodity also changes if other factors are kept constant. An increase in price will make the demand of that commodity to decrease hence a downward movement along the demand curve. A decrease in the price of the product will make the demand for the good to increase hence an upward movement along the demand curve.

Problem 4

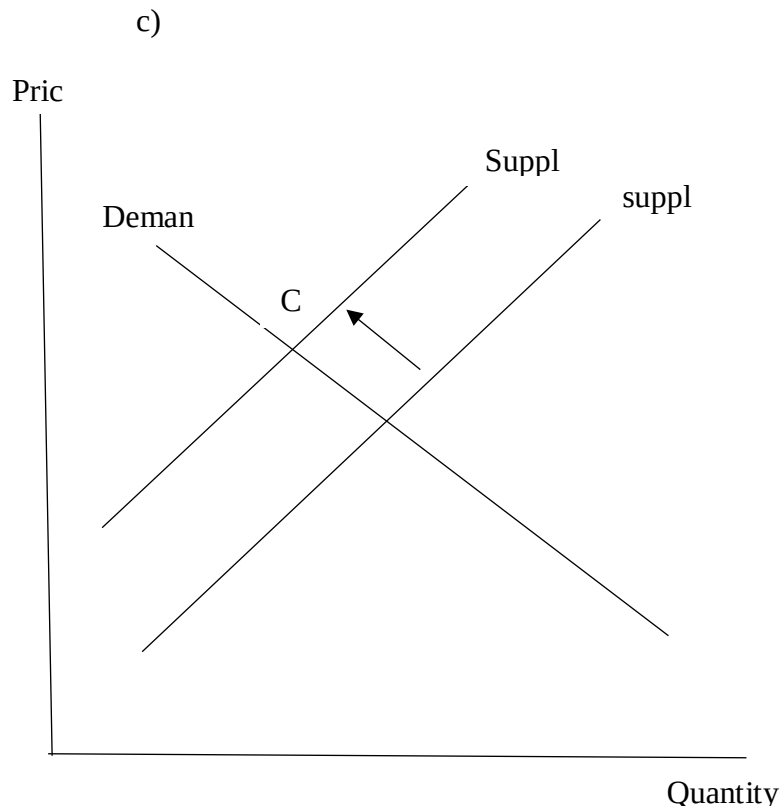
a)



An improvement of the water bottling industry like the use of technology in production will lead to an increase in the amount of plastic bottled water supplied in the market. The supply curve will shift to the right and the new equilibrium is A.

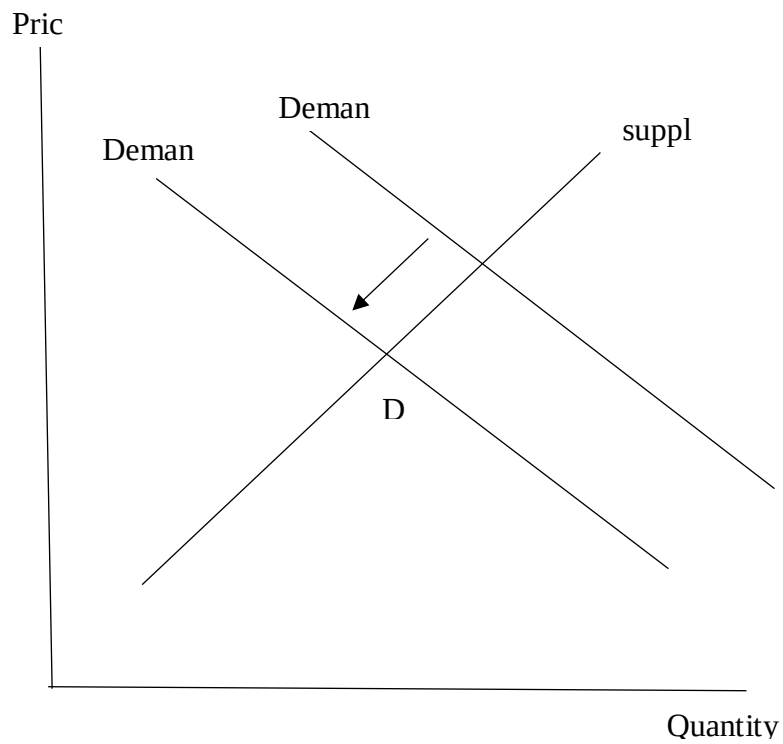


An increase in the number of consumers for bottled water increases the demand for bottled water. An increase in demand shifts the demand curve to the right. The new equilibrium point is B.



An increase in the price of plastic will increase the cost of production of the bottled water. An increase in the cost of production will lead to a decrease in the supply of plastic bottled water. The supply curve will thus shift to the left. The new equilibrium point is C.

d)



An increase in the average income from 20,000 KD to 25,000 KD will lead to a significant decrease in demand for plastic bottled water given it is an inferior good. The demand curve will thus shift to the left and the new equilibrium will be point D.