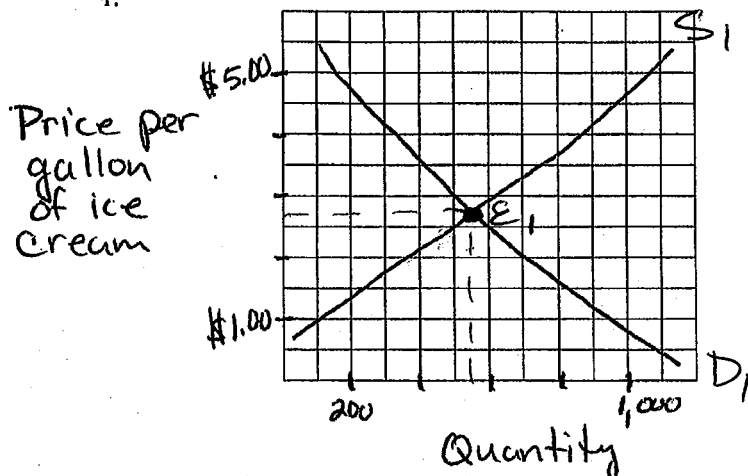


Interaction of Supply and Demand

1.



Make sure you labeled your graph.

a. Look at the graph #1 above. At what prices do you have a surplus? At what prices do you have a shortage?

- Above \$2.75 you have a surplus
- Below \$2.75 you have a shortage

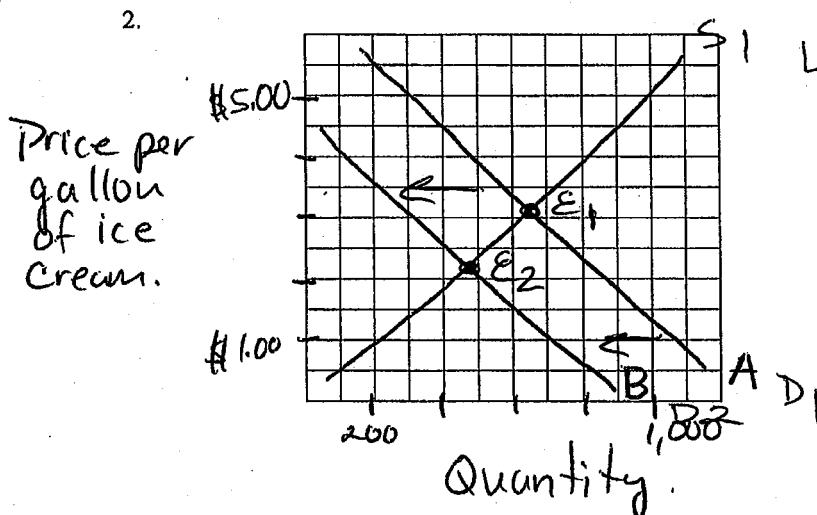
b. According to the graph above what is the equilibrium price and quantity?

\$2.75 / 550

c. What does equilibrium mean?

→ $D = S$

2.



Label your graph 1st.

a. Look at graph #2 above. If curve A becomes curve B, what has happened?

Demand has decreased.

b. Give two reasons why this might happen even though price has not changed?

(1) loss of income (2) substitute for ice cream cheaper (3) It's winter

c. How does this shift in the above graph effect the price of ice cream?

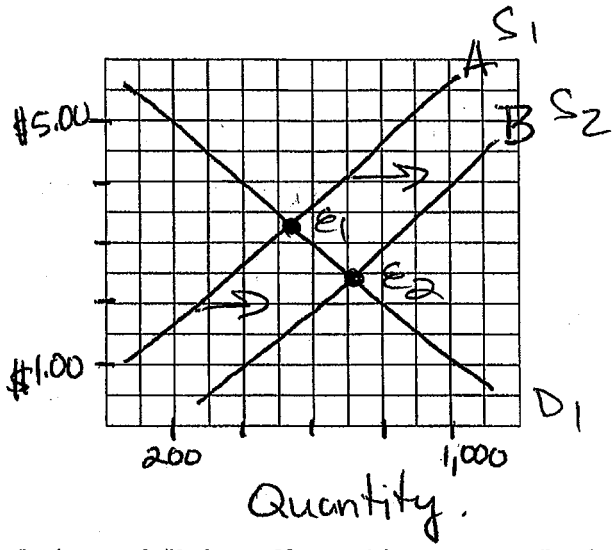
Price of ice cream will decrease.

Any of these are correct →

8b.

3.

Price per
gallon of
ice cream



Label your graph
1st.

Look at graph #3 above. If curve A becomes curve B, what has happened?

Supply has increased.

Give two reasons why this might happen even though price has not changed?

Any of
these

→ (1) inputs cheaper (2) Improvement in technology

(3) Better
efficiency

How does this shift in the above graph effect the price of ice cream?

Price will decrease.