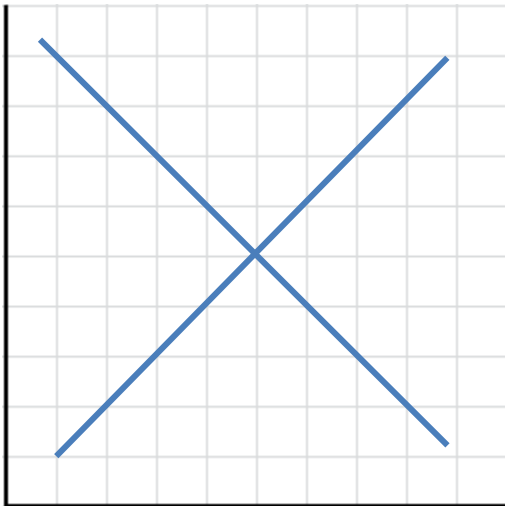


CONCEPT: SUPPLY AND DEMAND TOGETHER – DEMAND SHIFTS

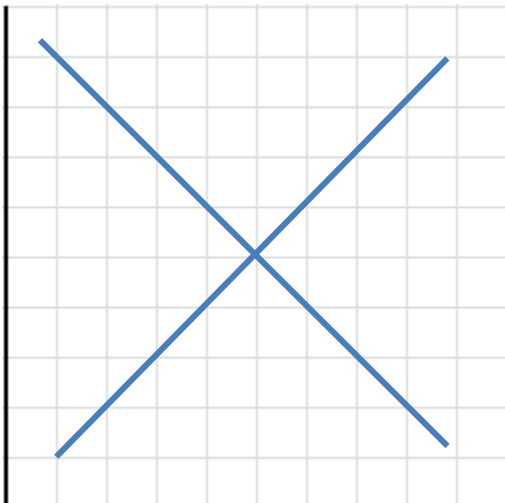
- When demand shifts, the equilibrium price and quantity changes. For now, hold supply constant.

Demand shifts right



Steps for Analyzing Changes in Equilibrium	
1.	Decide whether the event shifts demand or supply (or both).
2.	Decide the shift direction
3.	Find new price and quantity: P_2 and Q_2
4.	Compare to original: P_1 and Q_1

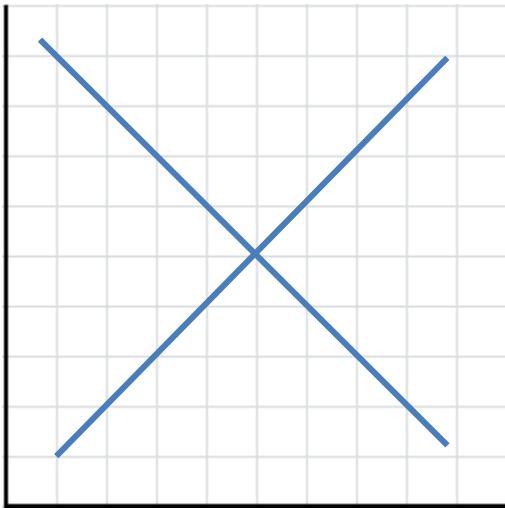
Demand shifts left



CONCEPT: SUPPLY AND DEMAND TOGETHER – SUPPLY SHIFTS

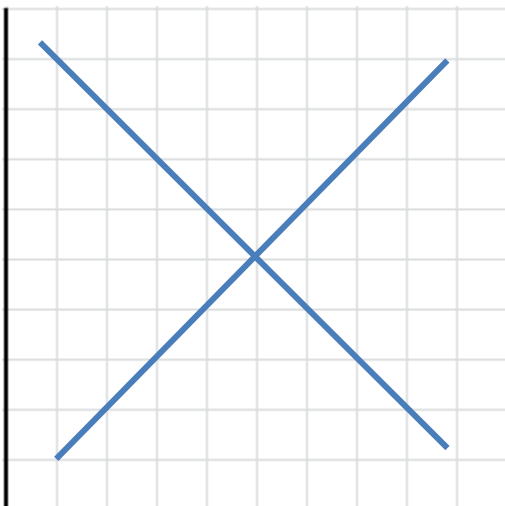
- When supply shifts, the equilibrium price and quantity changes. For now, hold demand constant.

Supply shifts right



Steps for Analyzing Changes in Equilibrium	
1.	Decide whether the event shifts demand or supply (or both).
2.	Decide the shift direction
3.	Find new price and quantity: P_2 and Q_2
4.	Compare to original: P_1 and Q_1

Supply shifts left



PRACTICE: If the economy booms and incomes rise, what happens in the markets for inferior goods?

- a. Prices and quantities both rise
- b. Prices and quantities both fall
- c. Prices rise and quantities fall
- d. Prices fall and quantities rise

PRACTICE: A change in which of the following will NOT shift the demand curve for ice cream?

- a. The price of frozen yogurt
- b. The price of ice cream
- c. The price of ice cream cones
- d. The income of ice cream consumers

PRACTICE: A decrease in _____ will cause a movement along a given supply curve, which is called a change in _____.

- a. supply, demand
- b. demand, supply
- c. demand, quantity supplied
- d. supply, quantity demanded

PRACTICE: Gum and mints are substitutes. If the price of gum increases, what happens in the market for mints?

- a. The supply curve shifts to the left
- b. The supply curve shifts to the right
- c. The demand curve shifts to the left
- d. The demand curve shifts to the right

PRACTICE: Which of the following situations would lead to an increase in the equilibrium price of carrots and a decrease in the equilibrium quantity of carrots sold?

- a. An increase in the price of hummus, a complement to carrots
- b. An increase in the price of celery, a substitute for carrots
- c. An increase in the price of fertilizer, an input for carrots
- d. An increase in consumers' incomes, assuming carrots are a normal good

PRACTICE: The discovery of a new fertilizer will shift the _____ curve for carrots, leading to a _____ equilibrium price.

- a. demand, higher
- b. demand, lower
- c. supply, higher
- d. supply, lower