

Learning Objectives:

LO 2: Use the supply and demand model to predict price and quantity outcomes for markets for products and services

GELO 2: Further knowledge and abilities related to critical and creative thinking

Directions: Work in groups of up to four people and answer the following questions. *When using graphs, you must clearly and correctly label all axis and curves to receive non-zero credit for an answer.* All papers will be collected, but only one member's paper will be randomly selected and graded and all members of the group will receive the same grade.

By signing below, you agree that the following work represents the efforts of everyone in the group, and you are willing to accept as your own grade for the group project the grade earned from this representation of your group's work. Every member must agree to these terms to earn a non-zero grade for this assignment.

_____ Signature Group Member 1	_____ Print Name	_____ Date
_____ Signature Group Member 2	_____ Print Name	_____ Date
_____ Signature Group Member 3	_____ Print Name	_____ Date
_____ Signature Group Member 4	_____ Print Name	_____ Date

For each of the following problems, read the scenario and determine the following (in order):

- Does the scenario cause a shift in the demand and/or supply curve? If so, which curve, which direction?
- Draw the supply and demand curves with appropriate shifts.
- Label the original and new equilibrium price and quantities.
- What is the impact of the scenario on price? What is the impact on quantity?

1. Nationwide (United States) gasoline prices fell in 2015 and 2016, and remained low compared to much of the previous decade. Describe and illustrate the impact on the market for compact fuel efficient cars, such as the Toyota Prius.

You can read more about the story here:

<http://www.wsj.com/articles/toyotas-prius-pays-price-for-cheap-gasoline-1473149470>

2. The federal government overhauls the health care insurance industry, requiring people to have adequate levels of health insurance and providing assistance to those with low incomes to allow them to buy health insurance. Describe the likely impact of more insured people on the **health care services** market.

3. In 2014, global demand for cheese and dairy products led producers to believe that higher prices for dairy products would continue into the future. As a consequence, many farmers decided to expand their dairy cow herds. Unfortunately for many producers, sustained higher dairy prices were not realized. Describe and illustrate the consequence of the expanded dairy operations on the market for cheese in 2016.

You can read more about the story here:

<http://www.wsj.com/articles/a-cheese-glut-is-overtaking-america-1463477403>

4. Walmart sells a number of inferior goods, such as inexpensive off-brand clothing, off-brand food, etc. The most recent recession was accompanied with decreases in income for people across the country. What is the impact on the market for inferior goods at Walmart. What is the impact on Walmart's total revenue earned from inferior goods?

You can read more about the story here:

<http://www.nytimes.com/2009/06/07/weekinreview/07rosenbloom.html>

5. During the most recent recession, job prospects for recent high school graduates were low. Assume that while the recession might cause a temporary decrease in income, income earned over an entire lifetime of a recent high school graduate is not affected. Describe the impact the recession has on the market for college education for two-year-type degrees (technical colleges, community colleges, etc).

6. From 2014-2016, a disease known as citrus greening has affected almost every orange grove in Florida. The disease results in small, bitter orange fruit and eventually kills the tree. At the same time, it has been widely reported that a number of researchers have consistently found that orange juice (and other fruit juice) can have the same negative impact on cardiovascular health as sugary soft drinks. Describe and illustrate the impact on the market for orange juice.

You can read more about the story here:

<http://tinyurl.com/florida-oranges>

7. In the past year, four new hotels have opened in downtown La Crosse. This rapid increase in the number of hotel rooms could be occurring for two reasons 1) hotel chains/owners are responding to increased demand from visitors to La Crosse area, and/or 2) this is simply an increase in supply of hotel rooms, more sellers have entered the market perhaps to due decreases in commercial real estate acquisition or building costs. What would you need to know about the market for hotel rooms in the City of La Crosse to determine which of these two scenarios is best explains why so many new hotels have opened recently?

You can read more about the story here:

<http://tinyurl.com/laxhotels>

8. Over the last decade there has an increase in demand for ethanol based fuel. The EPA also requires that as much as 1/3 of the nations corn be used for ethanol production. Much of the ethanol produced in the United States is made from corn, which requires farmland.

You can read more about the story here:

<http://www.npr.org/2010/12/22/132082743/if-your-meat-prices-rise-you-can-blame-ethanol>

- (a) Describe and illustrate the impact on the market for food made from corn.
- (b) Describe and illustrate the impact on feed for cattle and pigs, much of which is made from corn.
- (c) Describe and illustrate the impact of your previous answer on the market for beef and pork.

9. In 2009 and 2010, the federal government offered first time home buyers an \$8,000 tax credit if they purchased a house before April 2010.

Here are some articles about the effectiveness and impact of the policy:

<http://tinyurl.com/housetax>

<http://www.nytimes.com/2010/04/27/business/27home.html>

- (a) Describe the impact on the housing market up until April 2010.

- (b) Predict the impact on the housing market after April 2010.

10. Think about how you accomplished the general education learning outcome to improve your creative and critical thinking skills. What model did you use? Describe some aspects of a real world scenario that you better understand with the model.