Spring 2020 Andrew L. H. Parkes, Ph. D. Name _____

Quiz #4 - 5 points - Answers

Please answer the following questions using one graph.

1. The unleaded gasoline market in Flagstaff is represented by the following demand and supply schedules. The price is in dollars and the quanitities in thousands of gallons per day. (13 points)

P	Qd	D3	Qs	S2
$ 2.80	7	19	55	79
$ 2.70	14	26	50	74
$ 2.60	21	33	45	69
$ 2.50	28	40	40	64
$ 2.40	**35**	47	**35**	59
$ 2.30	42	**54**	30	**54**
$ 2.20	**49**	61	25	**49**
$ 2.10	56	68	20	44
$ 2.00	63	75	15	39

a) Graph these curves, labeling them D_1 for the demand curve, S_1 for the supply curve, and make sure to label everything. Label the initial equilibrium Q_1, P_1.

b) What is the equilibrium quantity and price? **P_1 = $2.40 Q_1 = 35,000**

c) Suppose that the supply of gasoline increases due to Iraq again producing oil such that production (quantity supplied) increases at each price by 24 thousand gallons per day. Draw the new curve and label it S^2. Label the this equilibrium Q_2, P_2.

d) An increase in demand is experienced (in addition to the supply change) due to the impact of hurricanes in the U.S. such that the quantity demanded increases by 12 thousand gallons per day. Show this on the same graph and label it D_3, P_3, and Q_3.

f) What happens to the equilibrium quantity from Q_1 to Q_3?? The equilibrium price (P_1 to P_3)?

P_1 to P_3? Decrease of 10 cents **Q_1 to Q_3? Increase of 19,000**