Individual Problems

8-1 Widget Market

The widget market is competitive and includes no transaction costs. Five suppliers are willing to sell one widget at the following prices: $30, $29, $20, $16, and $12. Five buyers are willing to buy one widget at the following prices: $10, $12, $20, $24, and $29. What is the equilibrium price and quantity in a competitive market?

8-2 Cotton Prices

The "A" index is a proxy for the world price of cotton. From January to October of 2010, the price reflected by the "A" index increased about 80%.

a. Provide two separate explanations for this price increase using shifts in supply or demand.

b. What one piece of information would allow you to decide which of the two is a better explanation?

8-3 Hand Sanitizer

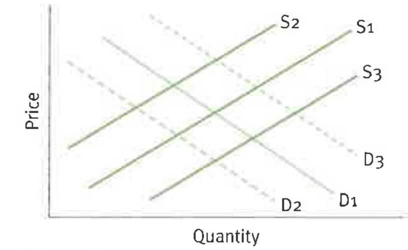
Due to the H1N1 flu outbreak, the demand for hand sanitizer has tripled. Should Johnson & Johnson increase production of their Purell hand sanitizer? Should it invest in doubling production capacity?

8-4 Chocolate Candy Bars Market

a. In the accompanying diagram (which represents the market for chocolate candy bars), the initial equilibrium is at the intersection of S_1 and D_1. Circle the new equilibrium if there is an increase in cocoa prices.

b. In the same diagram, the initial equilibrium is at the intersection of S_1 and D_1. Circle the new equilibrium if there is rapid economic growth.

Graph for Problem 8-4
Chocolate Candy Bars Market



8-5 Demand Shifts

Indicate whether the following changes would cause a shift in the demand curve for Product A and, if so, the direction of the shift.

Change	Demand Curve Shift?	Direction of Shift?
Increase in price of complementary product	Yes No	Increase Decrease N/A
Increase in the price of the Product A	Yes No	Increase Decrease N/A
Launch of effective advertising campaign for Product A	Yes No	Increase Decrease N/A

8-6 Valentine's Day

On Valentine's Day, the price of roses increases by more than the price of greeting cards. Why? (*Hint*: Consider what makes roses and cards different and how that difference might affect supply's responsiveness to price.)

Group Problem

G8-1 Supply and Demand

Using shifts in supply and demand curves, describe a change in the industry in which your