

Practice Questions 1

1. A video rental store rents old movies for Rs 25 per day. On average, 300 movies are rented each day. The store receives several copies of a new smash movie just released in video and decides to rent these movies at Rs 35 per day. Now, 400 movies are rented each day. Thus, though the average rental price of a movie increased, the quantity rented increased. Does this mean that the law of demand does not hold for this market?
2. Suppose the Indian economy enters a recession and incomes fall. What will happen to the equilibrium prices and quantities of normal goods? Would your answer be the same if you were discussing inferior goods? Why or why not?
3. When the price of good X rises, the demand for good Y falls. Explain what this relationship implies about the two goods.
4. In what ways can expectations change your demand for a product today?
5. My income has just increased by Rs.10,000 per year. If Maggi noodles is an inferior good in my opinion, what will happen to my demand for Maggi noodles? Show your answer using a graph.
6. Explain how the market demand curve can be derived. Does the law of demand apply to the market demand curve?
7. Suppose a long lost relative died and left you a trust fund worth Rs.1 million that you will receive ten years from now. What effect, if any, will this have on your demand for airline travel? (Assume that airline travel is a normal good.)
8. Show graphically the effect of an increase in the wage paid to autoworkers on the supply of new cars.
9. Using graphs, explain the effect of an increase in the price of cheese on the supply of cheese and the supply of pizza.
10. The following are some changes that may take place in the market for textbooks. For each of the following, indicate what will happen to either the demand for or the supply of textbooks by listing which curve is affected and then the terms: "shift right", "shift left", or "movement along".
 - (a.) An increase in student enrollment at universities across the country.
 - (b.) A decrease in the price of ink used to print textbooks.
 - (c.) A drop in income (textbooks are a normal good).
 - (d.) An improvement in the technology used to print textbooks.
 - (e.) An increase in college tuition.
11. The market for restaurant pizza in Chicago is currently in equilibrium at a price of \$8 and 2,000 pizzas are sold each day. Explain what will happen to the equilibrium price and quantity of pizzas sold and why (which curve has changed) for each of the following situations:
 - (a.) Delivery personnel form a labor union and secure a higher wage of \$7.50 per hour (a large increase in their wage).
 - (b.) Fast-food hamburger restaurants (Burger King & McDonalds) cut their prices in half.
12. Draw a graph showing the impact of students returning to campus in August on the market for pizza in a college town.