
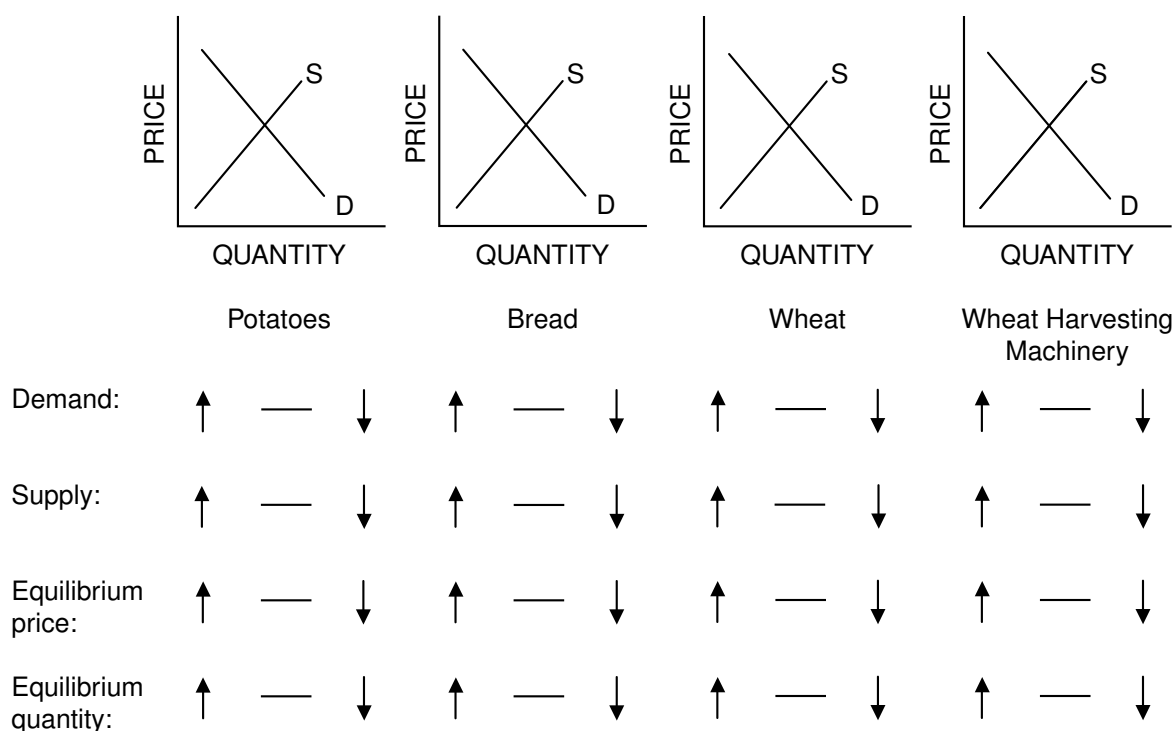


## How Markets Allocate Resources

The following questions refer to a group of related markets in the United States during a long period of time. Assume that the markets are perfectly competitive and that the supply and demand model is completely applicable. The figures show the supply and demand in each market *before* the assumed change occurs. Trace through the effects of the assumed change, *other things constant*. Work your way from left to right. Shift only one curve in each market. For each market, draw whatever new supply or demand curves are needed, labeling each new curve  $S_1$  or  $D_1$ . Then circle the correct symbol under each diagram ( $\uparrow$  for increase,  $—$  for unchanged, and  $\downarrow$  for decrease). Remember to shift only one curve in each market.

1. Assume that a new fertilizer dramatically increases the number of potatoes that can be harvested with no additional labor or machinery. Also assume that this fertilizer does not affect wheat farming and that people are satisfied to eat either potatoes or bread made from wheat flour.

 Figure 16.1  
Effects of a New Fertilizer



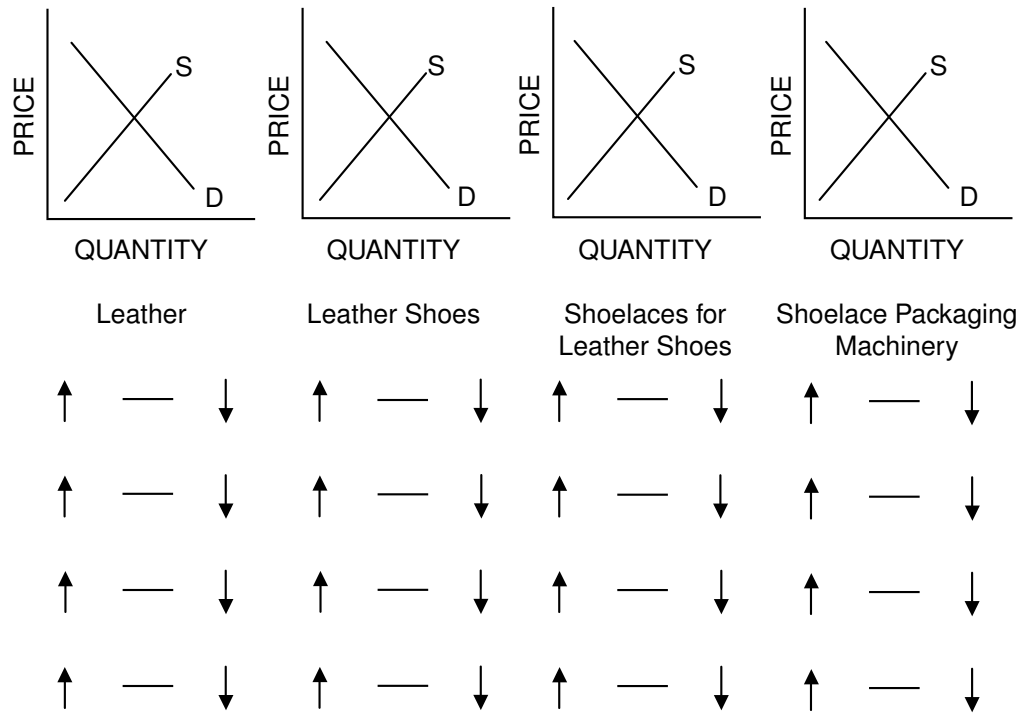
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2. Assume people's tastes change and there is an increase in the demand for briefcases and luggage made of leather. How would this affect the leather market and related markets? Draw the new curves and circle the appropriate symbols in all four markets.



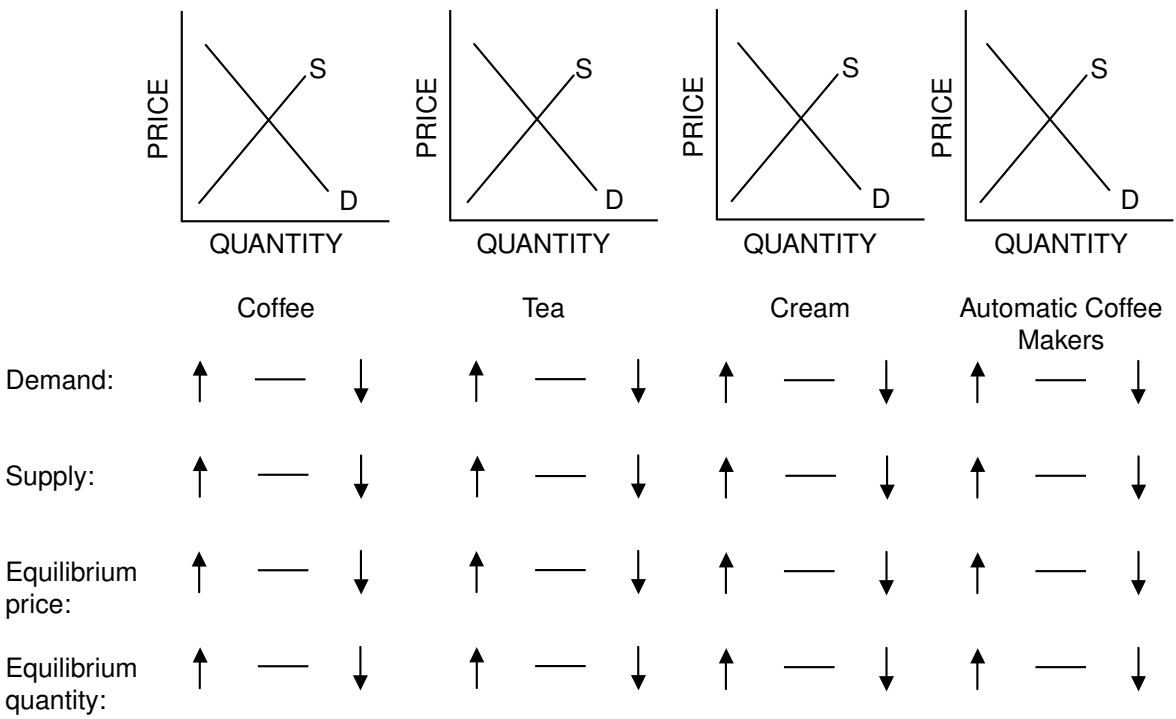
Figure 16.2

Effects of Increased Demand for Briefcases and Luggage



3. Assume that a heavy frost destroys half the world's coffee crop and that people use more cream in coffee than they do in tea.

\* Figure 16.3  
Effects of a Loss of Coffee Crop



4. Assume people's tastes change in favor of colored sports shirts, which are worn without neckties, and against white dress shirts, which are worn with neckties and tie clasps.



Figure 16.4  
Effects of a Shift to Sports Shirts

