

Econ 102 Discussion – Week 4

February 13-14, 2014

Indeterminacy

Sometimes, we can make clear predictions about what will happen when supply changes or demand changes. For example, if demand increases without any other changes, the equilibrium quantity will increase and equilibrium price will increase. But, sometimes, we cannot predict what will happen to the price or to the quantity if two things are changing at once.

Exercise 1: Starting with the original supply and demand equilibrium, show the two possible sets of ways that supply and demand can shift so that we know whether quantity increases/decreases but don't know whether price increases or decreases.

Exercise 2: Starting with the original supply and demand equilibrium, show the two possible sets of ways that supply and demand can shift so that we know whether price increases/decreases but don't know whether quantity increases or decreases.

Supply & Demand Continued

Exercise 3: Consider the following scenarios and demonstrate graphically how they affect equilibrium through supply and demand analysis.

- a) A large number of technology workers immigrate to a new country. What is the effect on the market for *bread*?
- b) Every producer of computer processors benefits from a new discovery that makes them more efficient. How is the market affected?
- c) The stock market crashes and people want to save their money to restore their net worth. How is the market for automobiles affected?
- d) New regulations by the City of Madison restrict the levels of cleanliness of restaurant so that some are put out of business. How is the market for restaurant meals affected?
- e) All the dairy farms from California relocate with their workers and cows to Wisconsin. What is the effect on the dairy industry in Wisconsin?

Exercise 4: Read the Time Magazine article about Janet Yellen, the new Chair of the Fed. Identify at least three key effects she will have as a chairwoman.

<http://business.time.com/2014/02/03/janet-yellen-sworn-in-to-lead-federal-reserve/>