

Name: \_\_\_\_\_

## Economics Review Packet: Supply, Demand, and Consumer Choice

1. **Key Terms** - EXPLAIN an experience or example that shows the “real world” application of each of the following. Define the terms in your own words and use examples that clearly demonstrate your understanding of each concept.
  - a. The Law of Demand
  - b. The Law of Supply
  - c. Equilibrium
  - d. Shortage and Surplus. How does the market fix them?
  - e. Normal Goods and Inferior Goods
  - f. Substitutes and Compliments
  
2. **Government Intervention:**
  - a. EXPLAIN the purpose and effect of the following four government policies. Then, DRAW a separate graph for each one showing how it functions
    - I. price floor
    - II. price ceiling
    - III. production subsidy
    - IV. import tariffs

### Demand and Supply Summary Sheet

Demand	Supply
Definition of Demand:	Definition of Supply:
The Law of Demand:	The Law of Supply:
What is equilibrium? What is a shortage? What is a surplus? (use $Q_d$ and $Q_s$ for your answers)	Why is finding equilibrium important?
What changes quantity demanded?	What changes quantity supplied?

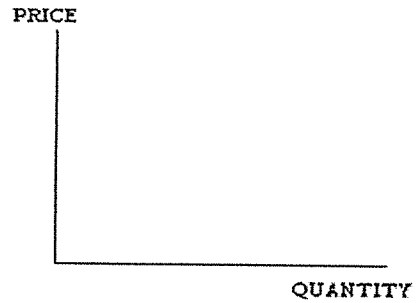
### Supply and Demand Summary Sheet

#### Price Floors

A surplus occurs when  $Q_d$  \_\_\_\_\_  $Q_s$  \_\_\_\_\_  
A price Floor goes \_\_\_\_\_ equilibrium

List the pros and cons of a price floor such as Minimum Wage

Draw a surplus resulting from a price floor

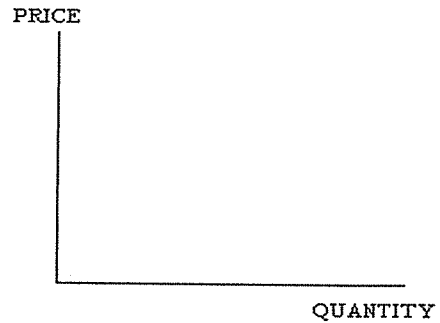



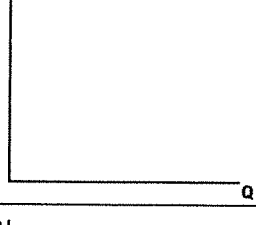
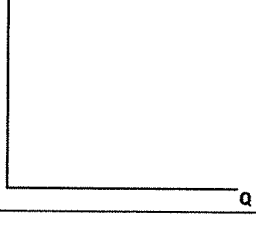
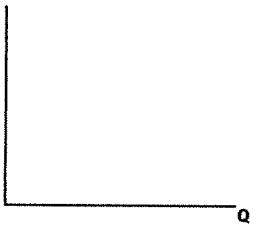
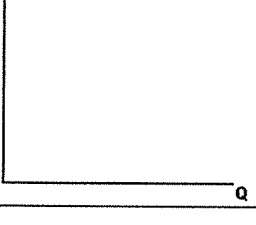
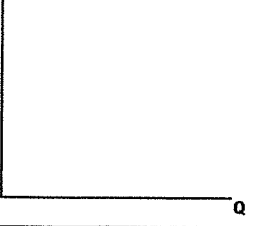
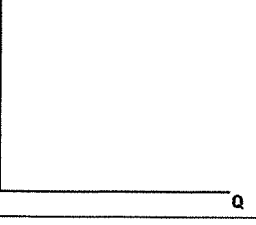
#### Price Ceilings

A shortage occurs when  $Q_d$  \_\_\_\_\_  $Q_s$  \_\_\_\_\_  
A price ceiling goes \_\_\_\_\_ equilibrium

List the Pros and Cons of a Price ceiling such as rent control

Draw a shortage resulting from a price ceiling




8.	The price of home computers decreases significantly. (Analyze computer games.)		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
9.	The Federal government imposes a \$5 per game tax on the manufacturers of the games.		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
10	The manufacturer of the computer games raises the price on the games.		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
11	In order to promote American production, Congress provides a subsidy to game producers. (Analyze only American firms)		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
12	A large firm enters the game business with a new line of games. (Analyze the whole game industry)		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
13	A recession hits the USA causing many people to lose their jobs. The unemployment rate goes up. Peoples incomes go down.		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____
14	New technology lowers production costs for computer games.		1. Draw and Label Equilibrium: 2. The Change: Supply or Demand Increase or Decrease Shifter 3. After: Price _____ Quantity _____

Adapted from The Study Guide by Walstad and Bingham p. 35, exercise 7 and Sally Dickson.