

Tales of Four Markets



How Markets Allocate Resources

Market prices, which are determined by supply and demand, are what organizes a market economy. These prices emerge from voluntary transactions among buyers and sellers. The order of a market economy is the result of millions of people seeking to further their own interests. This means a change in the underlying conditions of one good not only changes the price of that good but the prices of thousands of other goods and services and the wages of people who produce them. Because of the prices, market economies allocate resources in the best interest of consumers. Governments sometimes interfere in this process through regulations and price controls, usually to solve an immediate "crisis" but the policy can cause unintended consequences that no one anticipated.

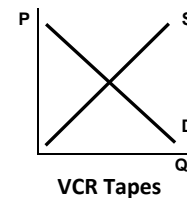
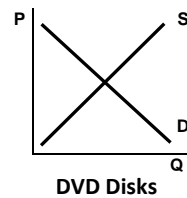
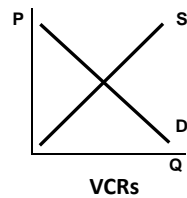
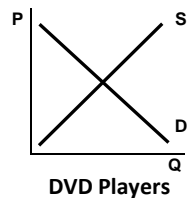
Directions

The following questions refer to a group of four related markets – two supplementary markets and two complementary markets. The diagrams show the supply and demand in each market *before* the assumed change occurs. Trace through the effects of the assumed change. Work your way from left to right.

- Shift the Curve.** First, draw whatever new supply or demand curve is needed for each market. Shift only one curve in each market.
- Which Way Does It Move?** Circle the correct symbol to indicate whether the supply and demand increases, decreases or stays the same. Remember, only one curve will change (either supply or demand). Use ► for increase, ◻ for no change, ◀ for decrease.
- How Does Equilibrium Change?** Circle the correct symbol to indicate how equilibrium price and equilibrium quantity changes as a result of shifting the curve.

1. Markets: DVD Players, VCRs, DVDs and VCR Tapes

Market Change: Improvements in technology reduce the cost of producing DVD players.

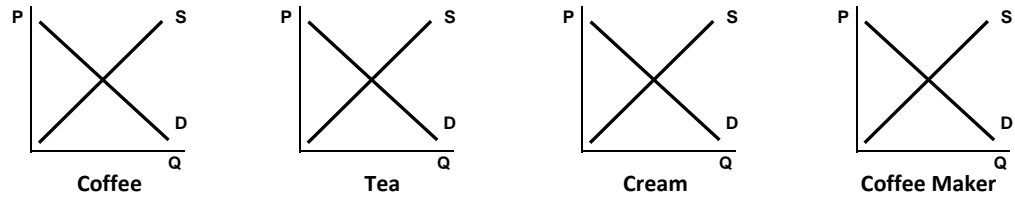


Demand	◀ ◻ ▶	◀ ◻ ▶	◀ ◻ ▶	◀ ◻ ▶
Supply	◀ ◻ ▶	◀ ◻ ▶	◀ ◻ ▶	◀ ◻ ▶
Equilibrium Price	- ◻ +	- ◻ +	- ◻ +	- ◻ +
Equilibrium Quantity	- ◻ +	- ◻ +	- ◻ +	- ◻ +

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2. Markets: Coffee, Tea, Cream and Coffee Makers

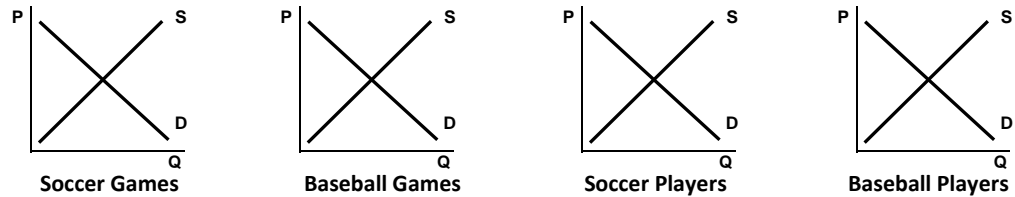
Market Change: Assume that a heavy frost destroys half the world's coffee crop, and that people use more cream in their coffee than they do in tea.



Demand	◀ ◻ ▶	◀ ◻ ▶	◀ ◻ ▶	◀ ◻ ▶
Supply	◀ ◻ ▶	◀ ◻ ▶	◀ ◻ ▶	◀ ◻ ▶
Equilibrium Price	- ◻ +	- ◻ +	- ◻ +	- ◻ +
Equilibrium Quantity	- ◻ +	- ◻ +	- ◻ +	- ◻ +

3. Markets: Soccer Games, Baseball Games, Soccer Players and Baseball Players

Market Change: Assume that soccer becomes the national pastime, and attendance at professional soccer games exceeds attendance at professional baseball games.



Demand	◀ ◻ ▶	◀ ◻ ▶	◀ ◻ ▶	◀ ◻ ▶
Supply	◀ ◻ ▶	◀ ◻ ▶	◀ ◻ ▶	◀ ◻ ▶
Equilibrium Price	- ◻ +	- ◻ +	- ◻ +	- ◻ +
Equilibrium Quantity	- ◻ +	- ◻ +	- ◻ +	- ◻ +