
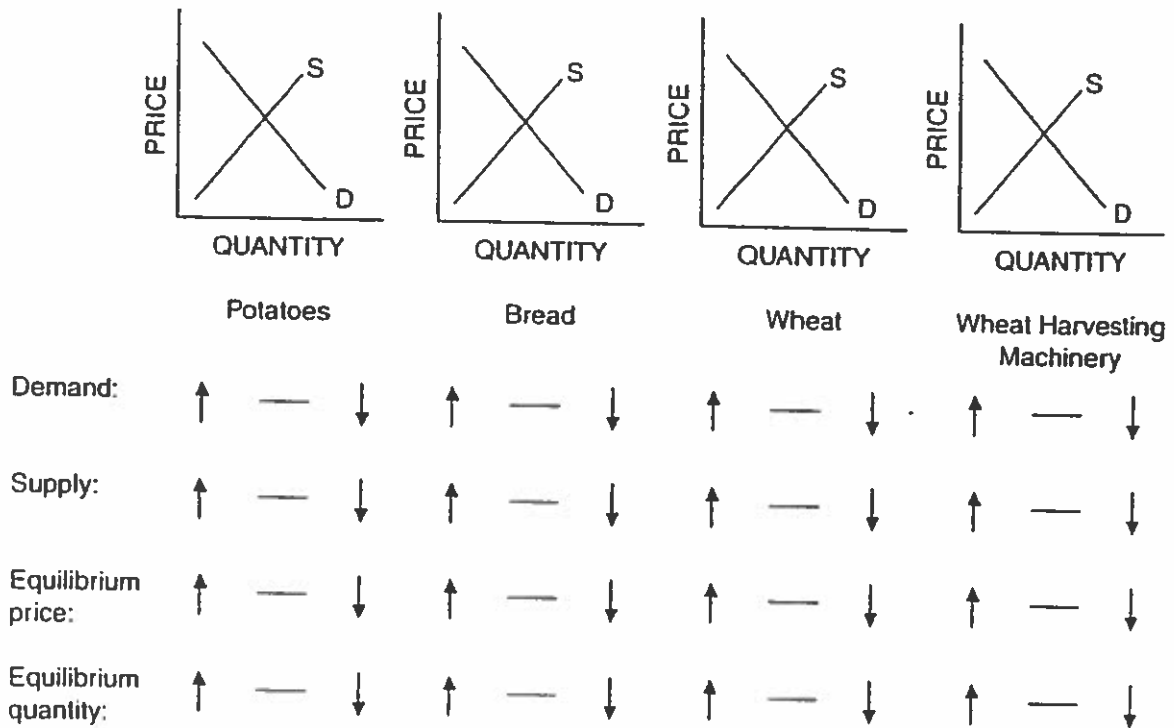


How Markets Allocate Resources

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.

- 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



Adapted from Phillip Saunders, *Introduction to Microeconomics: Student Workbook*, 18th ed. (Bloomington, Ind., 1998). Copyright © 1998 Phillip Saunders. All rights reserved.

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

