

What is Supply and Demand?

Worksheet

The law of supply and demand states that a good's market price settles where the quantity buyers demand equals the quantity sellers supply - the equilibrium point.

Questions

1. At market equilibrium:

- A) Quantity demanded exceeds quantity supplied
- B) Quantity supplied exceeds quantity demanded
- C) Quantity demanded equals quantity supplied
- D) Price is always zero

2. If demand increases while supply stays the same, equilibrium price will:

- A) Fall
- B) Rise
- C) Stay the same
- D) Become zero

3. A price set below equilibrium typically causes a:

- A) Surplus
- B) Shortage
- C) No change
- D) Price decrease

4. The demand curve is typically:

- A) Upward sloping
- B) Downward sloping
- C) Vertical
- D) Horizontal

5. Demand is $Q_d = 80 - 0.8P$ and supply is $Q_s = 0.8P$. Find the equilibrium price and quantity.

6. A drought cuts wheat supply, shifting the supply curve left with demand unchanged. What happens to price and quantity?

7. Demand is $Q_d = 100 - P$ and supply is $Q_s = 20 + P$. Find equilibrium price and quantity.

8. Define: What is market equilibrium?

9. Define: What happens to price when demand increases (supply unchanged)?

10. Define: What happens to price when supply decreases (demand unchanged)?

Answer Key

1. C) Quantity demanded equals quantity supplied - Equilibrium is defined as the point where $Q_d = Q_s$.
2. B) Rise - A rightward shift in demand raises both equilibrium price and quantity.
3. B) Shortage - Below equilibrium, quantity demanded exceeds quantity supplied - a shortage.
4. B) Downward sloping - Demand slopes downward - lower price, higher quantity demanded.
5. Set $Q_d = Q_s$: $80 - 0.8P = 0.8P$ $80 = 1.6P$ $P = \$50$ $Q = 0.8 \cdot 50 = 40$ units
6. Supply falls at every price level At the old equilibrium price, quantity supplied is now below quantity demanded a shortage Price rises until a new, higher equilibrium price is reached, at a lower equilibrium quantity
7. Set $Q_d = Q_s$: $100 - P = 20 + P$ $80 = 2P$ $P = \$40$ $Q = 20 + 40 = 60$ units
8. The price and quantity where the amount buyers demand equals the amount sellers supply.
9. The demand curve shifts right, and equilibrium price and quantity both rise.
10. The supply curve shifts left, equilibrium price rises and equilibrium quantity falls.

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