

What is Supply and Demand?

Worksheet

Demand is the quantity buyers want at each price (falls as price rises); supply is the quantity sellers offer at each price (rises as price rises). The market settles at the equilibrium price where quantity demanded equals quantity supplied.

Questions

1. If $Q_d = 100 - 4P$ and $Q_s = 10 + 6P$, what is the equilibrium price?
 - A) \$5
 - B) \$9
 - C) \$10
 - D) \$90
2. What happens to equilibrium price when demand increases (curve shifts right) with supply unchanged?
 - A) Price falls
 - B) Price rises
 - C) Price stays the same
 - D) Quantity falls to zero
3. At a price above equilibrium, what typically results?
 - A) A shortage
 - B) A surplus
 - C) No change in quantity
 - D) Demand becomes zero
4. Which best describes the law of supply?
 - A) Higher price leads to lower quantity supplied
 - B) Higher price leads to higher quantity supplied
 - C) Price has no effect on supply
 - D) Supply always equals demand
5. Demand: $Q_d = 100 - 4P$. Supply: $Q_s = 10 + 6P$. Find the equilibrium price and quantity.
6. At \$5, quantity demanded is 80 and quantity supplied is 40. What happens to price?
7. A frost destroys half the coffee crop (supply shifts left). How does the equilibrium price change if demand is unchanged?
8. Define: What is the law of demand?
9. Define: What is the law of supply?
10. Define: What is market equilibrium?

Answer Key

1. B) \$9 - Set $100 - 4P = 10 + 6P$ $90 = 10P$ $P = 9$.
2. B) Price rises - A rightward demand shift means more is wanted at every price, pushing the equilibrium price up.
3. B) A surplus - Above equilibrium, quantity supplied exceeds quantity demanded, creating a surplus that pushes price back down.
4. B) Higher price leads to higher quantity supplied - Producers are willing to supply more units as the price they receive rises.
5. Set $Q_d = Q_s$: $100 - 4P = 10 + 6P$ $100 - 10 = 6P + 4P$ $90 = 10P$ $P^* = 9$ $Q^* = 10 + 6(9) = 64$ Equilibrium: price \$9, quantity 64 units
6. Quantity demanded (80) > quantity supplied (40) shortage of 40 units Buyers compete for scarce goods, bidding price up Price rises toward equilibrium, closing the gap
7. Supply curve shifts left (less quantity offered at every price) At the old equilibrium price, quantity demanded now exceeds quantity supplied New equilibrium: higher price, lower quantity traded
8. As price rises, quantity demanded falls, all else equal (an inverse relationship).
9. As price rises, quantity supplied rises, all else equal (a direct relationship).
10. The price and quantity where quantity demanded exactly equals quantity supplied - no shortage, no surplus.

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