

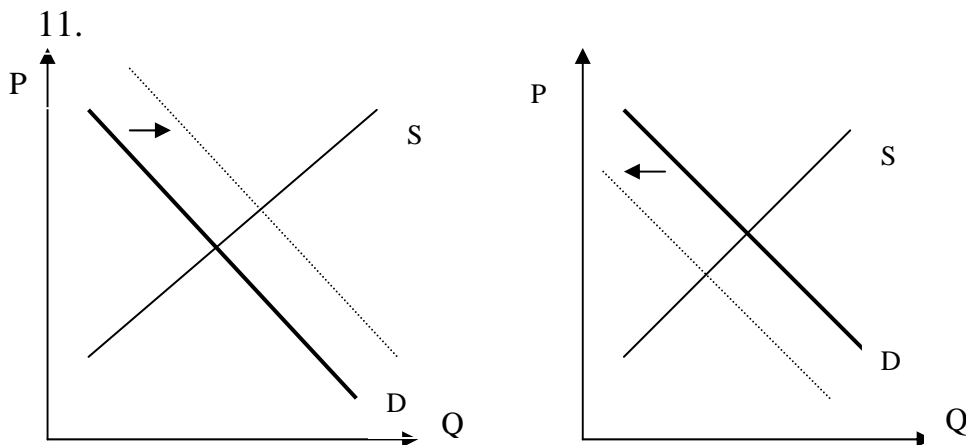
Suggested Solutions for HW#2 Spring 2007 Econ 102

Prof Rick's Class
By He, Chao

1. Since the market for ice cream is made up of three consumers, the total demand of the market at each price is just the sum of the demand of these three individuals:

price	market demand
1.75	3
1.50	9
1.25	13
1.00	17
0.75	21

Then draw the demand curve in accordance with these pairs of numbers.



The left graph shows the market of DVD and the right one shows that of VCR market.

Notice that DVD player is a complementary good of DVD. The demand for DVD therefore will shift out. (And be aware that in the new equilibrium of DVD market in the left graph, the price of DVD will go up “eventually”. Some students would think this contradicts the law of demand. But to use law of demand for DVD market, we must hold other things equal (the DVD player’s price doesn’t change, for instance). And now the reason for the demand curve to shift is because some exogenous factor has changed—the price of DVD player changed—thus the law is not broken...)

Similarly, demand for VCR would shift inward because this exogenous change (think about substitute good).

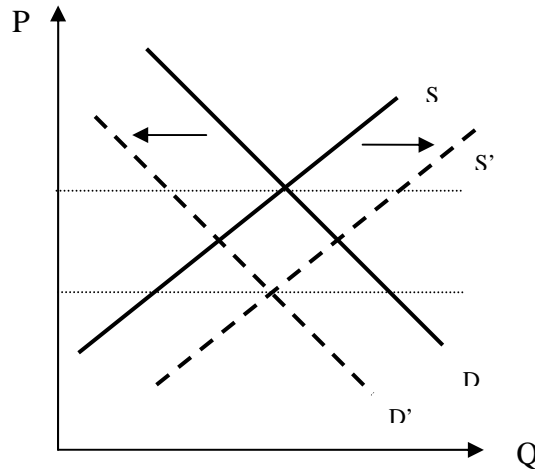
17. There are two shocks to this laser surgery market:

(1) the increasing concerns related to side effects from the surgery will reduce the demand for this surgery at each price, making the demand curve for surgery to shift inward.

(2) the question told us “...the companies renting eye-surgery machinery to doctors had reduced their charges. One large company had cut its charge from

\$250 per patient to \$100.” The first sentence indicates the cost of conducting such surgery has been cut down. Seemingly, we should draw an upward sloping supply curve and then shift it outward.

The new equilibrium takes place at a lower price but the new quantity is ambiguous.



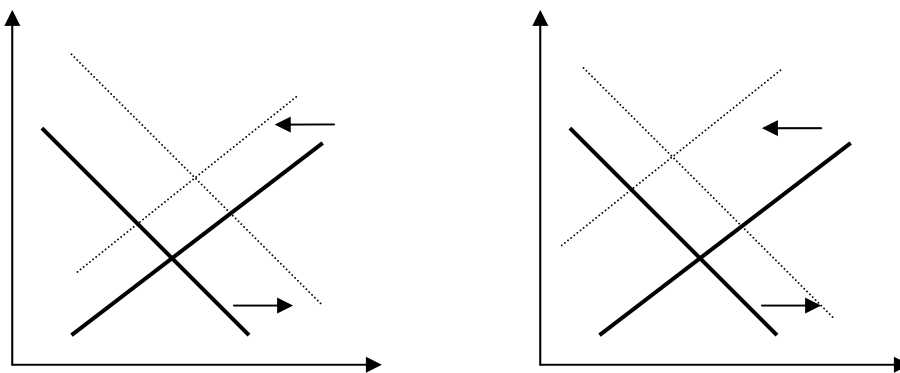
19. Actually I got no clue until I consulted one of my American friends to know the cultural background related to the question...

(1) “The Beatles”: the boomers are a major group of fans for the Beatles (if you don’t know what this means, you are just like me, haha). As they are richer, the whole society’s demand curve for this autograph actually shift out—or to put it in another way, those publisher now could increase the price of the autograph and still find the book sells well.

(2) “Princess Diana”: Items like “her signed Christmas cards” are substitute goods to this autograph for people who like her.

(3) “Robert E. Lee”: Maybe there is some kind of fashionable concern/public attention about the civil war in 1997 but not in 2001 any more. (preference change)

25.



Notice that “how far” the demand curve and supply curve shift is unknown from the question and the two graphs above are both possible. The only thing that is certain is the price of Child care will increase. Whether the quantity purchased will increase or not is unknown. Try to express this idea by words.