

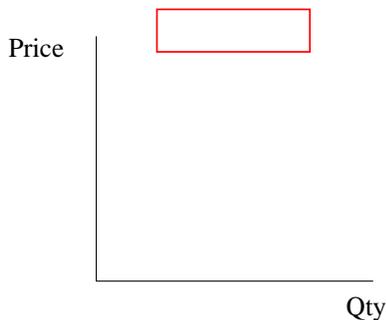
### Supply & Demand, Intro to Investing Study Guide

Only review sheets which demonstrate considerable effort will be given full credit. **DUE:**

- 1) The **law of demand** states that:
  - a. As PRICE rises quantity demanded \_\_\_\_\_.
  - b. The relationship between price and quantity demanded is an \_\_\_\_\_ relationship

- 2) The **law of supply** states that:
  - a. as PRICE rises quantity supplied \_\_\_\_\_.
  - b. The relationship between price and quantity supplied is a \_\_\_\_\_ relationship

- 3) Draw a properly labeled supply/demand graph for T-Shirts with a **market equilibrium** = Price: \$3.00 Qty 1,500
  - Label each axis of the graph, both curves D<sub>1</sub> & S<sub>1</sub>, and equilibrium (E<sub>1</sub>)



- 4) Explain the difference between a **change in demand** and a **change in quantity demand**?
  - a. Please understand this—it will be extremely helpful when taking the test!

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- 5) List the 5 **determinants of demand**? (hint: Write out the acronym to start)

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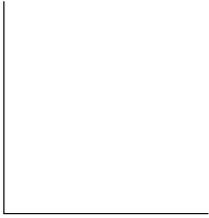


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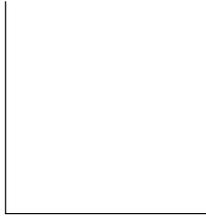
- 6) Whenever a **determinant of demand** changes you know the demand curve must \_\_\_\_\_.

- 7) Draw a **demand curve** only and **shift** it for the following changes :  
 a. Label curves  $D_1$  and  $D_2$  respectively

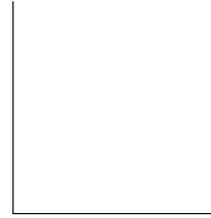
**Income increases**



**Substitute price decreases**



**Complement price decreases**



- 8) What is the difference between a **change in supply** and a **change in quantity supplied**?  
 a. Please understand this—it will help a lot on the test....

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- 9) List the 3 **determinants of supply**? (hint: Write our the **acronym** to start)

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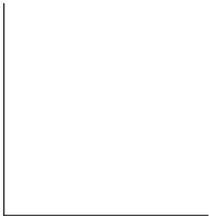
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- 10) Whenever a **determinant of supply** changes you know the supply curve must \_\_\_\_\_.

- 11) Draw a **supply curve** only and shift it for the following changes :

- a. Label supply curves  $S_1$  and  $S_2$  respectively

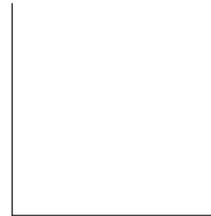
**Input Costs increase**



**Technology increases**

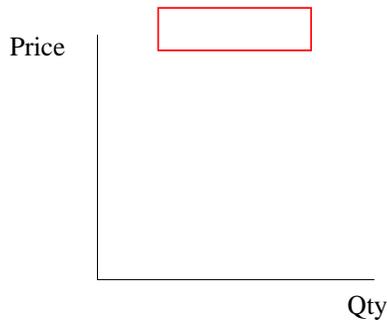


**New firms enter market**



- 12) Draw the **market for Apples** in equilibrium at price =  $\$1^{00}$  and quantity = 10,000. What situation occurs if the government sets a **price ceiling** at  $0.^{50}$  cents.

- *Draw the price ceiling on your graph and explain the affect this has on the current market equilibrium*



Who benefits and who loses from this ceiling?

What would happen if the price ceiling was set at  $\$2^{00}$

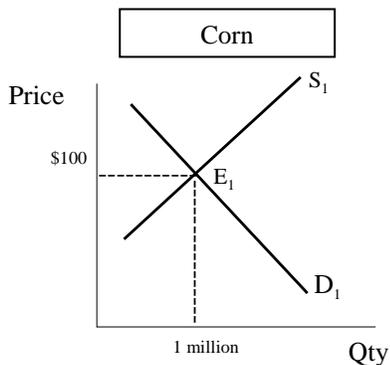
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13) Explain the effect of a government **price floor** above the market equilibrium for Corn in the graph below.

- Draw in the price floor and explain the effect



Explanation:

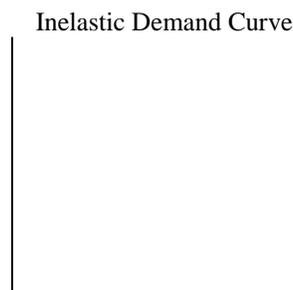
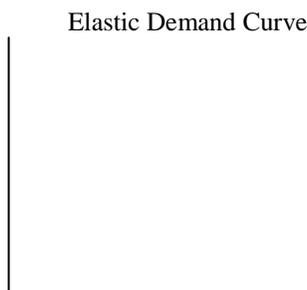
14) Give an example of two products which are **complements**. \_\_\_\_\_

15) Give an example of two products which are **substitutes**? \_\_\_\_\_

16) List 3 factors which determine a good's **elasticity**: \_\_\_\_\_

17) Draw a demand curve for an **elastic good** and an **inelastic good** below.

- a. Now draw a point  $P^1$  &  $Q^1$  on each graph and then a second higher price at  $P^2$  and  $Q^2$



18) Notice that the quantity demanded on the **inelastic goods** changed by LESS than on the **elastic graph**. Explain why this occurred:

\_\_\_\_\_

\_\_\_\_\_

19) **Sample question:** If the price of good A increases and demand for good B decreases, then good A & B are:

- a. Inelastic goods   b. elastic goods   c. substitutes   d. complements

Explain your answer to the above question: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

20) If price rises by 20% on an ELASTIC GOOD you know that quantity demanded must fall by \_\_\_\_\_ than 20%.

21) If price rises by 20% on an INELASTIC GOOD you know that quantity demanded must fall by \_\_\_\_\_ than 20%.

22) What is the formula for **total revenue**: \_\_\_\_\_

23) What is the formula for **profit**. \_\_\_\_\_

24) What happens to **total revenue** when prices rise on inelastic goods? Explain why this is true:  
\_\_\_\_\_  
\_\_\_\_\_

25) What is a share of stock? \_\_\_\_\_

26) What is a bond and why would a person buy one? \_\_\_\_\_

27) Compare and contrast stocks and bonds as investments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

28) What are the three main stock indices and what does each one measure?

- a) \_\_\_\_\_ -- \_\_\_\_\_
- b) \_\_\_\_\_ -- \_\_\_\_\_
- c) \_\_\_\_\_ -- \_\_\_\_\_

29) What is the definition of

A "large cap" stock? \_\_\_\_\_

A mid-cap stock \_\_\_\_\_

A small-cap stock \_\_\_\_\_

30) What are the four basic asset classes a person can invest in? \_\_\_\_\_  
\_\_\_\_\_

31) What are the nominal and real rates of return on the following types of investments?

	Nominal Rate of Return	Real Rate of Return
Cash Accounts		
Bonds		
Stocks		

32) What is "compound interest" and why is understanding this concept so important in investing?  
\_\_\_\_\_  
\_\_\_\_\_

33) If your investment time frame is the long-term, which type of investment is likely the best?

STOCKS                  BONDS                  CASH ACCOUNTS

34) If your investment time frame is the medium-term, which type of investment is likely the best?

STOCKS                  BONDS                  CASH ACCOUNTS

35) If your investment time frame is the very short-term, which type of investment is likely the best?

STOCKS                  BONDS                  CASH ACCOUNTS

36) What is an ETF and what are the advantages of investing in ETFs?

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37) What is the most recently reported

Unemployment Rate \_\_\_\_\_ GDP Growth Rate \_\_\_\_\_ Federal Funds Rate \_\_\_\_\_ Jobs Growth # \_\_\_\_\_

**Short Answer Section:** There will be 8 Supply & Demand graphing problems. Be able to identify what type of change has occurred—a price change, a change in demand (TIPSE), or a change in supply (TIN)—be able to shift the appropriate supply or demand curves if applicable & be able to specifically identify which determinant of Demand or Supply has changed, if one has. Also, be able to understand the difference between a price floor and a price ceiling & to explain how price ceilings or floors affect market equilibrium.

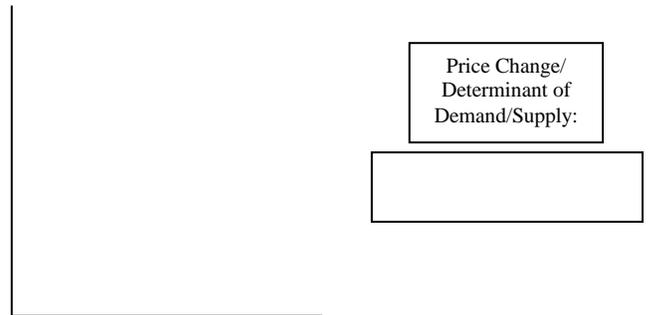
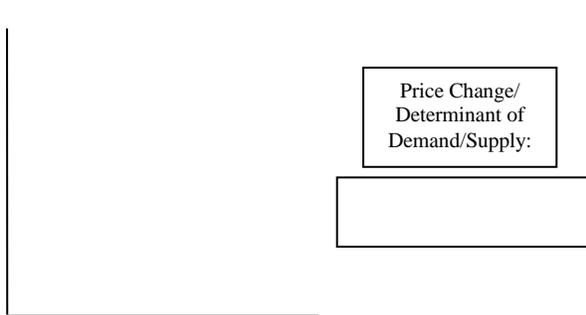
**Directions:** Understand that we are solving these problems in the *SHORT RUN*. What is the immediate effect of a change in economic circumstances?

- 1) Draw the initial Supply and Demand Curves. Label them  $S_1$  and  $D_1$  respectively. Label Equilibrium  $E_1$
  - 2) Label the Equilibrium Price and Quantity [based on information provided]
- NEXT:
- 3) Determine what changes with the introduction of situation A
  - 4) If there is a change in price then draw in the new price ( $P_2$ ) and demonstrate what happens to equilibrium. If there is a change in demand or supply, state the exact *determinant of Supply or Demand* that caused either curve to shift (TIPSE or TIN)
  - 5) Label any new supply/demand curves  $S_2$  or  $D_2$  respectively.
  - 6) Label the new equilibrium  $E_2$ , the new equilibrium price  $P_2$  and the new equilibrium quantity  $Q_2$ .
  - 7) Repeat for situation B

**1. MARKET FOR ELECTRIC CARS: M.E. \$30,000/100 cars**

A. Price of gasoline rises

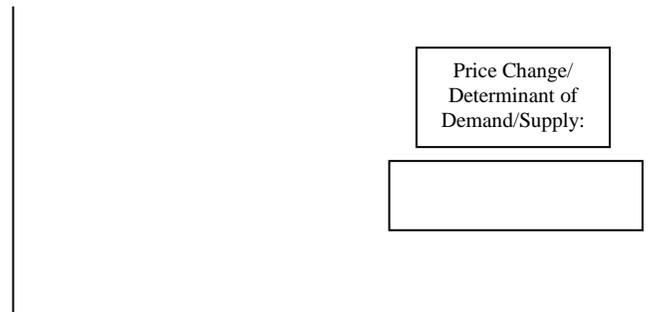
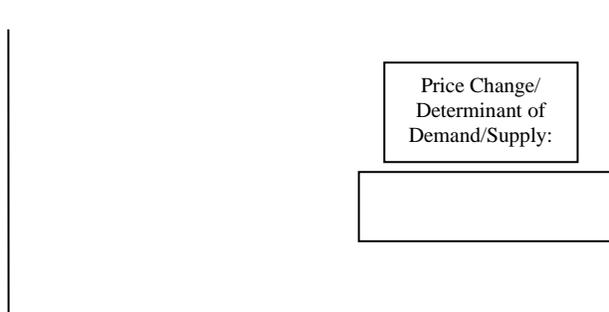
B. California offers a tax break to car manufacturers who produce an electric car



**2. MARKET FOR SUV'S: M.E. \$30,000/100 cars**

A. Price of gasoline rises

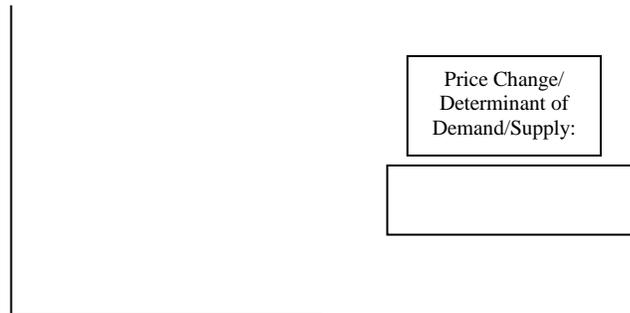
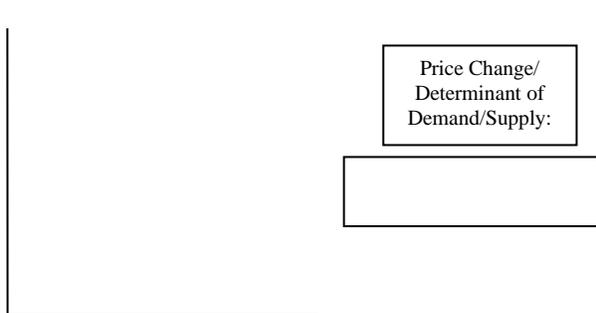
B. All SUV dealers cut the price of their SUVs to \$25,000 each



**3. MARKET FOR FORD EXPLORERS: M.E. \$30,000/100 cars**

A. Wages and income rise for American workers

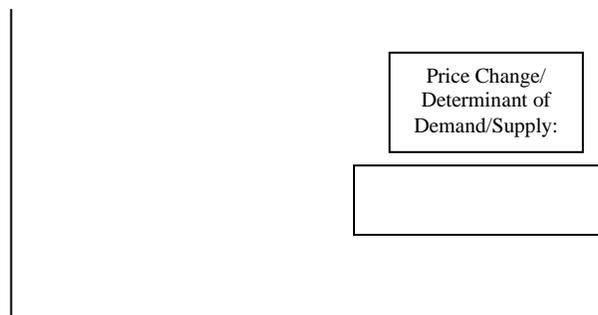
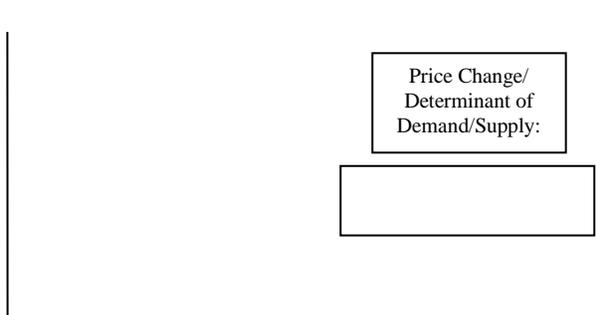
B. Potential buyers postpone purchases until year-end clearance sales begin.



**4. MARKET FOR LAPTOPS: M.E. \$975/100 items**

A. The price of laptops is reduced to \$800.

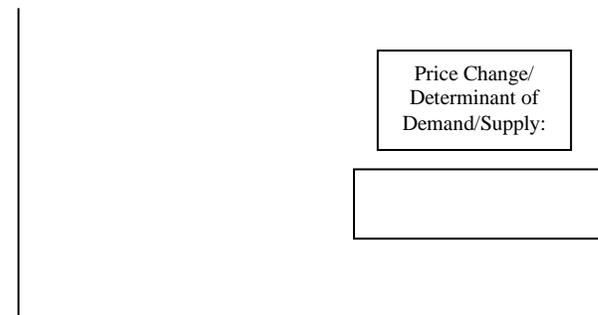
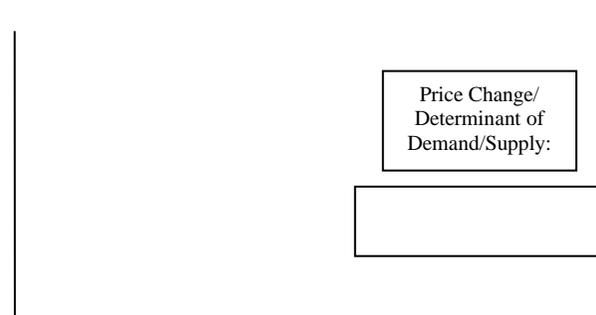
B. Due to recent earthquakes in Asia, memory chips, which are needed to make computers, have become much scarcer and more expensive



**5. MARKET FOR BEEF PRODUCTS: M.E. \$4.00lb/20lbs**

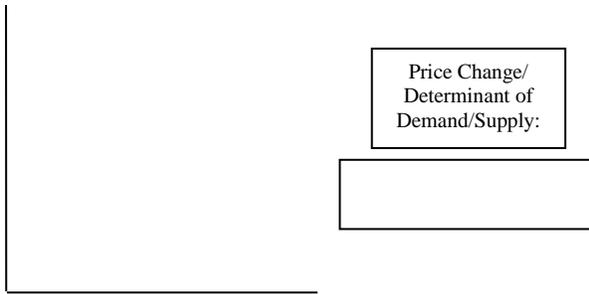
A. Oprah Winfrey announce on her television show that she will no longer eat beef products

B. An energy crisis in California makes it more expensive to process beef.

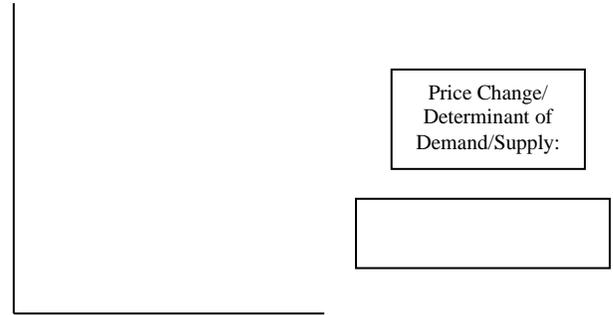


**6. MARKET FOR PEPSI: M.E. 80cents/100cans**

A. Pepsi opens new bottling facility with faster, more efficient machinery

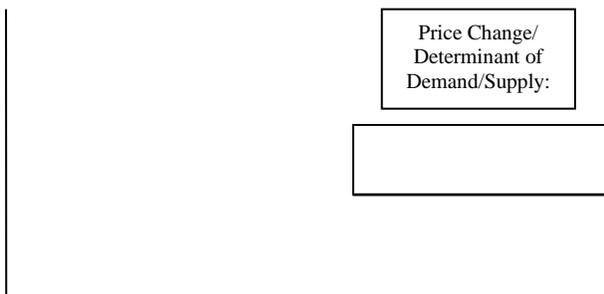


B. Coca-Cola introduces a better tasting and cheaper soda



**7. MARKET FOR SNOWBOARDS: M.E. \$200/100 snowboards**

A. Snowboarding events at the Olympics cause thousands to want to try the sport



B. Due to increased demand for snowboards, more snowboard manufacturers enter the market.

