Chapter 6 Practice Problems

1. Sketch a supply and demand graph for the flower market. Assume demand and supply are both relatively inelastic.
   1. Identify the allocatively efficient price and quantity.
   2. Shade the region of consumer surplus.
   3. Shade the region of producer surplus.
   4. If your bay is angry with you, explain what will happen to price and quantity in the flower market.
   5. Explain what happens to the consumer and producer surplus as a result of the market change that just occurred.
2. Sketch a supply and demand graph for the swag market. Assume demand is relatively inelastic and supply is relatively elastic.
   1. Identify the allocatively efficient price and quantity.
   2. Shade the region of consumer surplus.
   3. Shade the region of producer surplus.
   4. If the cost of resources used to make swag decrease and the price of swag’s substitutes increases, explain what will happen to price and quantity in the swag market.
   5. Explain what happens to the consumer and producer surplus as a result of the market changes that just occurred.
3. Sketch a supply and demand graph for the snapback market. Assume demand is relatively elastic and supply is relatively inelastic.
   1. The company chooses to produce a quantity at which MB > MC. Identify the market price and quantity on your graph. Is the company producing the allocatively efficient quantity? Explain.
   2. Shade the region of consumer surplus.
   3. Shade the region of producer surplus.
   4. Shade the region of deadweight loss.
   5. How can the company improve its allocative efficiency?
4. Sketch a supply and demand graph for Jordans. Assume demand and supply are both relatively elastic.
   1. The company chooses to produce a quantity at which MB < MC. Identify the market price and quantity on your graph. Is the company producing the allocatively efficient quantity? Explain.
   2. Shade the region of consumer surplus.
   3. Shade the region of producer surplus.
   4. Shade the region of deadweight loss.
   5. How can the company improve its allocative efficiency?