

RM 3-7-1: Demand and Supply of Leather Jackets (ANSWER KEY)

The following figures are the demand and supply for leather jackets bought and sold from one clothing store:

Quantity Demanded	Price Per Jacket	Quantity Supplied	Surplus/Shortage
90	\$170	60	<i>+30</i>
85	180	65	<i>+20</i>
80	190	70	<i>+10</i>
75	200	75	<i>--</i>
70	210	80	<i>-10</i>
65	220	85	<i>-20</i>
60	230	90	<i>-30</i>

Questions

1. Graph the data and determine the equilibrium price.

Equilibrium price is \$200.

2. Fill in the surplus and shortage column.

See above.

3. On your graph, shade in the areas which represent a surplus or shortage.

Area between demand and supply lines above \$200 is surplus; area below is shortage.

4. Suppose the incomes of customers buying jackets rise. What might happen to the demand for jackets? What would happen to the demand curve?

Demand would increase. Demand curve moves up to the right.

5. Suppose the costs of making jackets falls. What might happen to the supply of jackets? What would happen to the supply curve?

Supply would increase. Supply curve moves down to the right