

Quiz 3  
5 points

**On a separate sheet of paper please answer the following questions.**

1. The Kona coffee (1/2 pound bags) market is represented by the following demand and supply schedules. The prices are in dollars and the quantities are in hundreds of 1/2 pound bags per day.

Price	Q <sup>d</sup>	Q <sup>s</sup>
1	55	19
2	50	23
3	45	27
4	40	31
5	35	35
6	30	39
7	25	43
8	20	47
9	15	51

- a) Graph these curves, D for the demand curve, S for the supply curve, and make sure to label everything. Label the initial equilibrium  $Q_1, P_1$ .
- b) What is the equilibrium price and quantity?
- c) What is the value of the surplus, equilibrium or shortage if there is a price floor at \$6? Make sure to write the condition of the market AND the value(s).
- d) What is the value of the surplus, equilibrium or shortage if there is a price floor at \$4? Make sure to write the condition of the market AND the value(s).
- e) Draw and label the price floor that is effective on the y-axis (i.e. which price floor matters – is binding or creates a surplus/shortage) –  $P_f$ . Also label the quantities demanded and supplied on the x-axis ( $Q^D$  and  $Q^S$ ).
- f) Suppose that the supply of Kona coffee decreases due to land being used for condominiums instead of coffee such that production (quantity supplied) decreases at each price by 9 hundred 1/2 pound bags per day. Draw the new curve and label it  $S^2$ . Label the this equilibrium  $Q_2, P_2$ .
- g) What happens to the equilibrium quantity? The equilibrium price? Is the equilibrium affected by the price floor? If so how (is there a shortage or surplus)?