



Chapter 4 Exercises

Self-Check Questions

1. In the labor market, what causes a movement along the demand curve?
What causes a shift of the demand curve?
2. In the labor market, what causes a movement along the supply curve?
What causes a shift of the supply curve?
3. Why is a living wage considered a price floor? Does imposing a living wage have the same outcome as a minimum wage?
4. In the financial market, what causes a movement along the demand curve?
What causes a shift in the demand curve?
5. In the financial market, what causes a movement along the supply curve?
What causes a shift in the supply curve?
6. If a usury law limits interest rates to no more than \$35, what would the likely impact be on the amount of loans made and interest rates paid?
7. Which of the following changes in the financial market will lead to a decline in interest rates? Select all that apply.
 - a. A rise in demand
 - b. A fall in demand
 - c. A rise in supply
 - d. A fall in supply
8. Which of the following changes in the financial market will lead to an increase in the quantity of loans made and received? Select all that apply.
 - a. A rise in demand
 - b. A fall in demand
 - c. A rise in supply
 - d. A fall in supply
9. Identify the most accurate statement. A price floor will have the largest effect if it is set:
 - a. substantially above the equilibrium price
 - b. slightly above the equilibrium price
 - c. slightly below the equilibrium price
 - d. substantially below the equilibrium price

Sketch all four of these possibilities on a demand and supply diagram to illustrate your answer.
10. Identify the most accurate statement. A price ceiling will have the largest effect:
 - a. substantially below the equilibrium price
 - b. slightly below the equilibrium price
 - c. substantially above the equilibrium price
 - d. slightly above the equilibrium price

Sketch all four of these possibilities on a demand and supply diagram to illustrate your answer.
11. Select the correct answer. A price floor will usually shift:
 - a. demand
 - b. supply
 - c. both
 - d. neither

Illustrate your answer with a diagram.
12. Select the correct answer. A price ceiling will usually shift:
 - a. demand
 - b. supply
 - c. both
 - d. neither

Review Questions

13. What is the “price” commonly called in the labor market?
14. Are households demanders or suppliers in the goods market? Are firms demanders or suppliers in the goods market? What about the labor market and the financial market?
15. Name some factors that can cause a shift of the demand curve in labor markets.
16. Name some factors that can cause a shift of the supply curve in labor markets.
17. How do economists define equilibrium in financial markets?
18. What would be a sign of a shortage in financial markets?
19. Would usury laws help or hinder resolution of a shortage in financial markets?
20. Whether the product market or the labor market, what happens to the equilibrium price and quantity for each of the four possibilities: increase in demand, decrease in demand, increase in supply, and decrease in supply?

Critical Thinking Questions

21. Other than the demand for labor, what would be another example of a derived demand?
22. Suppose that a 5% increase in the minimum wage causes a 5% reduction in employment. How would this affect employers and how would it affect workers? In your opinion, would this be a good policy?
23. Under what circumstances would a minimum wage be a nonbinding price floor? Under what circumstances would a living raise be a binding price floor?
24. Suppose the U.S. economy began to grow more rapidly than other countries in the world. What would be the likely impact on U.S. financial markets as part of the global economy?
25. If the government imposed a federal interest rate ceiling of 20% on all loans, who would gain and who would lose?
26. Why are the factors that shift the demand for a product different from the factors that shift the demand for labor? Why are the factors that shift the supply of a product different from those that shift the supply of labor?
27. During a discussion several years ago on building a pipeline to Alaska to carry natural gas, the U.S. Senate passed a bill stipulating that there should be a guaranteed minimum price for the natural gas that would flow through the pipeline. The thinking behind the bill was that if private firms had a guaranteed price for their natural gas, they would be more willing to drill for gas and to pay to build the pipeline.
 - a. Using the demand and supply framework, predict the effects of this price floor on the price, quantity demanded, and quantity supplied.
 - b. With the enactment of this price floor for natural gas, what are some of the likely unintended consequences in the market?
 - c. Suggest some policies, other than the price floor, working within the framework of demand and supply that the government can pursue if it wishes to encourage drilling for natural gas and a new pipeline in Alaska.

Problems

28. Identify each of the following as involving either demand or supply. Draw a circular flow diagram and label the flows *A* through *F*. (Some choices can be on both sides of the goods market.)
- a. Households in the labor market
 - b. Firms in the goods market
 - c. Firms in the financial market
 - d. Households in the goods market
 - e. Firms in the labor market
 - f. Households in the financial market
29. Predict how each of the following events will raise or lower the equilibrium wage and quantity of oil workers in Texas. In each case, sketch a demand and supply diagram to illustrate your answer.
- a. The price of coal rises.
 - b. New oil-drilling equipment is invented that is cheap and requires few workers to run.
 - c. Several major companies that do not drill oil open factories in Texas, offering many well-paid jobs.
 - d. Government imposes costly new regulations to make oil drilling a safer job.
30. Predict how each of the following economic changes will affect the equilibrium price and quantity in the financial market for home loans. Sketch a demand and supply diagram to support your answers.
- a. The number of people at the most common ages for home buying increases.
 - b. People gain confidence that the economy is growing and that their jobs are secure.
 - c. Banks that have made home loans find that a larger number of people than they expected are not repaying those loans.
 - d. Because of a threat of war, people become uncertain about their economic future.
 - e. The overall level of saving in the economy diminishes.
 - f. The federal government changes its bank regulations in a way that makes it cheaper and easier for banks to make home loans.

31. The table shows the amount of savings and borrowing in a market for loans to purchase homes, measured in millions of dollars, at various interest rates. What is the equilibrium interest rate and quantity in the capital financial market? How can you tell? Now, imagine that because of a shift in the perceptions of foreign investors, the supply curve shifts so that there will be \$10 million less supplied at every interest rate. Calculate the new equilibrium interest rate and quantity, and explain why the direction of the interest rate shift makes intuitive sense.

Interest Rate	Quantity Supplied	Quantity Demanded
5%	130	170
6%	135	150
7%	140	140
8%	145	135
9%	150	125
10%	155	110

32. Imagine that to preserve the traditional way of life in small fishing villages, a government decides to impose a price floor that will guarantee all fishermen a certain price for their catch.
- Using the demand and supply framework, predict the effects on the price, quantity demanded, and quantity supplied.
 - With the enactment of this price floor for fish, what are some of the likely unintended consequences in the market?
 - Suggest some policies other than the price floor, working within the framework of demand and supply, to make it possible for small fishing villages to continue.
33. What happens to the price and the quantity bought and sold in the cocoa market if countries producing cocoa experience a drought and a new study is released demonstrating the health benefits of cocoa? Illustrate your answer with a demand and supply graph.