

Now suppose that Maine lobsters can be sold in France. The French demand schedule for Maine lobsters is as follows:

Price of lobster (per pound)	Quantity of lobster supplied (pounds)
\$25	100
20	300
15	500
10	700
5	900

- b. What is the demand schedule for Maine lobsters now that French consumers can also buy them? Draw a supply and demand diagram that illustrates the new equilibrium price and quantity of lobsters. What will happen to the price at which fishermen can sell lobster? What will happen to the price paid by U.S. consumers? What will happen to the quantity consumed by U.S. consumers?
7. Find the flaws in reasoning in the following statements, paying particular attention to the distinction between shifts of and movements along the supply and demand curves. Draw a diagram to illustrate what actually happens in each situation.
- a. "A technological innovation that lowers the cost of producing a good might seem at first to result in a reduction in the price of the good to consumers. But a fall in price will increase demand for the good, and higher demand will send the price up again. It is not certain, therefore, that an innovation will really reduce price in the end."
- b. "A study shows that eating a clove of garlic a day can help prevent heart disease, causing many consumers to demand more garlic. This increase in demand results in a rise in the price of garlic. Consumers, seeing that the price of garlic has gone up, reduce their demand for garlic. This causes the demand for garlic to decrease and the price of garlic to fall. Therefore, the ultimate effect of the study on the price of garlic is uncertain."
8. The following table shows a demand schedule for a normal good.

Price	Quantity demanded
\$23	70
21	90
19	110
17	130

- a. Do you think that the increase in quantity demanded (say, from 90 to 110 in the table) when price decreases (from \$21 to \$19) is due to a rise in consumers' income? Explain clearly (and briefly) why or why not.

- b. Now suppose that the good is an inferior good. Would the demand schedule still be valid for an inferior good?
- c. Lastly, assume you do not know whether the good is normal or inferior. Devise an experiment that would allow you to determine which one it was. Explain.

9. According to the *New York Times* (November 18, 2006), the number of car producers in China is increasing rapidly. The newspaper reports that "China has more car brands now than the United States. . . . But while car sales have climbed 38 percent in the first three quarters of this year, automakers have increased their output even faster, causing fierce competition and a slow erosion in prices." At the same time, Chinese consumers' incomes have risen. Assume that cars are a normal good. Use a diagram of the supply and demand curves for cars in China to explain what has happened in the Chinese car market.

10. Aaron Hank is a star hitter for the Bay City baseball team. He is close to breaking the major league record for home runs hit during one season, and it is widely anticipated that in the next game he will break that record. As a result, tickets for the team's next game have been a hot commodity. But today it is announced that, due to a knee injury, he will not in fact play in the team's next game. Assume that season ticket-holders are able to resell their tickets if they wish. Use supply and demand diagrams to explain the following.

- a. Show the case in which this announcement results in a lower equilibrium price and a lower equilibrium quantity than before the announcement.
- b. Show the case in which this announcement results in a lower equilibrium price and a higher equilibrium quantity than before the announcement.
- c. What accounts for whether case a or case b occurs?
- d. Suppose that a scalper had secretly learned before the announcement that Aaron Hank would not play in the next game. What actions do you think he would take?

11. In *Rolling Stone* magazine, several fans and rock stars including Pearl Jam, were bemoaning the high price of concert tickets. One superstar argued, "It just isn't worth \$75 to see me play. No one should have to pay that much to go to a concert." Assume this star sold out arenas around the country at an average ticket price of \$75.

- a. How would you evaluate the argument that ticket prices are too high?
- b. Suppose that due to this star's protests, ticket prices were lowered to \$50. In what sense is this price too low? Draw a diagram using supply and demand curves to support your argument.
- c. Suppose Pearl Jam really wanted to bring down ticket prices. Since the band controls the supply of its services, what do you recommend they do? Explain using a supply and demand diagram.
- d. Suppose the band's next CD was a total dud. Do you think they would still have to worry about