Lori Perez Matos
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ECON 1101 // WH08

Chapter 3 Writing Assignment -

Read chapter 3 and answer the following questions:
1. Define the following terms:

a. Law of demand : the relationship between price and quantity. (book example: when gas prices rise the consumption of the gas decreases) demand is controlled by certain variables.

b. Law of supply: Supply is high when prices are high, supply is low when prices are low. If there's a high amount of something for example gas there's no need in finding more because of the amount you have. (high =better // lower =lower quality)

c. Ceteris paribus :relates to demand curve and supply curve and can only relate to 2 varices at time in which the price point of there two variables are only don't relate to economic factors and beside the pricing the variable are same, constand.

d. Complements: the promotion of one good can affect the other. (example. Buying super bowl tickets increase beer prices, an increase in new cereal can affect milk prices.)

e. Substitutes: can be the replacement of another good. (example. Textbook becoming ebooks or barcodes given to scan when a buy something in replacement of a receipt)

f. Price ceiling: This is how the government controls the max price something can be sold for.

g. Price floor: The control of the lowest price something can be sold for.

h. Normal good: much like supply and demand; as income is high so are the quality, as income is low so is the quality

i. Inferior good: opposite of normal goods as income rises demand for quality falls and as income decreases demand for quality increases.

j. Consumer surplus: Is what the consumer was willing to pay minus what they actually paid for the goods/serivce.

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2. If the price is above the equilibrium level, would you predict a surplus or a shortage? If the price is below the equilibrium level, would you predict a surplus or a shortage? Why?

If the price is above the equilibrium level there is a surplus in the market. Ths means there's more goods then there is demand for these goods so the market will be left with a over amount of goods. If the price point if below the equilibrium the opposite would happening there will be shortage of goods with a existing demand for those goods in which the producer instead of the consumer has the power.