Name: Date:

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The Economic Way of Thinking

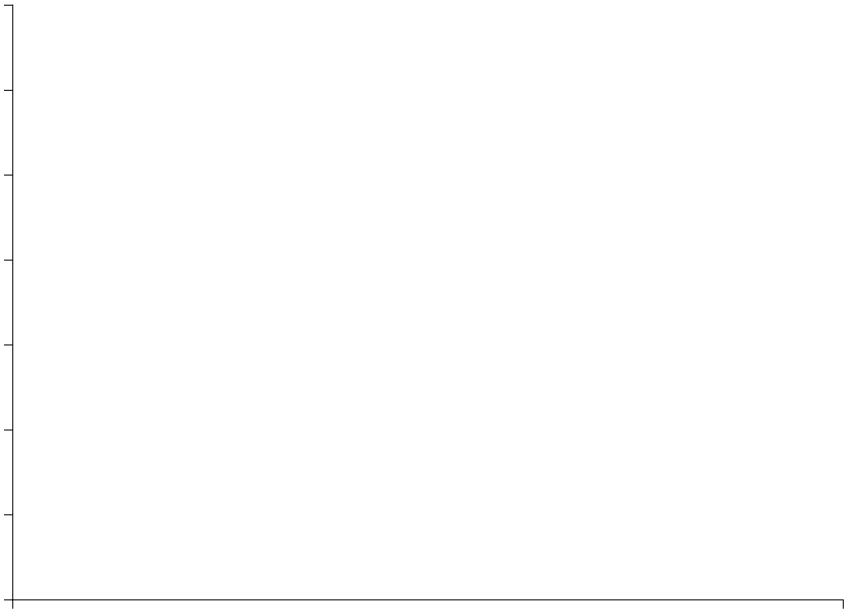
1. **MULTI-PART QUESTION**:

Suppose the demand curve for MSU sweatshirts is given by:

Price	Quantity Demanded per year	D' Step 6:
10	4000	
20	3200	
30	2400	
40	1600	
50	800	
60	0	

Step 1: a. Graph this demand curve in Figure 1. Label the axes.

Figure 1



Suppose the supply curve for MSU sweatshirts is given by:

Price	Quantity Supplied per year	S' Step 4:
10	400	
20	800	
30	1200	
40	1600	
50	2000	
60	2400	

Step 2: b. Graph the supply for MSU sweatshirts in Figure 1.

Step 3: c. At what price does equilibrium occur? _____What quantity is traded at that price? _____. At this equilibrium, how much in total dollars is spent on MSU sweatshirts? _____.

Step 4: d. Suppose the price of cotton (a production input for sweatshirts) falls such that at each price, quantity supplied changes by 1200 units. Complete the column of the supply table labeled S'. ~~Graph the new supply curve in Figure 1.~~ Label it S'.

Step 5: e. What is the new equilibrium price? _____ quantity? _____. At this equilibrium, how much in total dollars is spent on MSU sweatshirts? _____

Step 6: f. Starting with the **original** demand and supply figures, suppose that the price of sweatpants (a compliment consumption good to sweatshirts) falls. As a result, the quantity of MSU sweatshirts demanded changes by 1200 at each price. Complete column D' of the demand table. ~~Graph the new demand curve in Figure 1. Label it D~~'.

Step 7: g. What is the new equilibrium price? _____ quantity? _____. At this equilibrium, how much in total dollars is spent on MSU sweatshirts? _____