

1 Macroeconomics **ACTIVITY 1-4**

Part A: A Change in Demand versus a Change in Quantity Demanded

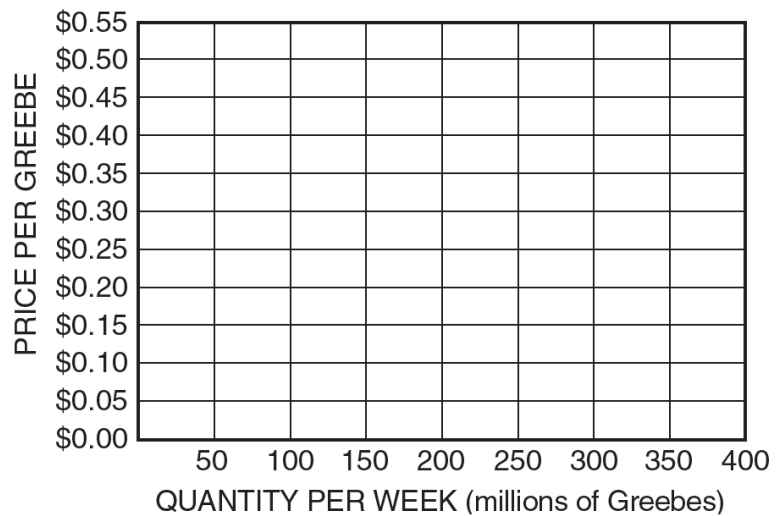
Student Alert: *The distinction between a “change in demand” and a “change in quantity demanded” is very important!*

Table 1-4.1 shows the market demand for a hypothetical product: Greebes. Study the data and plot the demand for Greebes on the graph in Figure 1-4.1. Label the demand curve D and answer the questions that follow.

Table 1-4.1
Demand for Greebes

| Price (per Greebe) | Quantity demanded per week (millions of Greebes) |
|--------------------|--|
| \$0.10 | 350 |
| \$0.15 | 300 |
| \$0.20 | 250 |
| \$0.25 | 200 |
| \$0.30 | 150 |
| \$0.35 | 100 |
| \$0.40 | 50 |
| \$0.45 | 0 |

Figure 1-4.1
Demand for Greebes



1) The data for demand curve D indicate that at a price of \$0.30 per Greebe, buyers would be willing to buy _____ million Greebes. All other things held constant, if the price of Greebes increased to \$0.40 per Greebe, buyers would be willing to buy _____ million Greebes. Such a change would be a decrease in (*demand / quantity demanded*). All other things held constant, if the price of Greebes decreased to \$0.20, buyers would be willing to buy _____ million Greebes. Such a change would be called an increase in (*demand / quantity demanded*).

Table 1-4.2
New Demand for Greebes

| Price (per Greebe) | Quantity demanded per week (millions of Greebes) |
|--------------------|--|
| \$0.05 | 300 |
| \$0.10 | 250 |
| \$0.15 | 200 |
| \$0.20 | 150 |
| \$0.25 | 100 |
| \$0.30 | 50 |

Now, let’s suppose there is a change in federal income-tax rates that affects the disposable income of Greebe buyers. This change in the ceteris paribus (all else being equal) conditions underlying the original demand for Greebes will result in a new set of data, shown in Table 1-4.2. Study these new data, and add the new demand curve for Greebes to the graph in Figure 1-4.1. Label the new demand curve D1 and answer the questions that follow.

2) Comparing the new demand curve (D1) with the original demand curve (D), we can say that the change in the demand for Greebes results in a shift of the demand curve to the (*left / right*). Such a shift indicates that at each of the possible prices shown, buyers are now willing to buy a (*smaller / larger*) quantity; and at each of the possible quantities shown, buyers are willing to offer a (*higher / lower*) maximum price. The cause of this demand curve shift was a(n) (*increase / decrease*) in tax rates that (*increased / decreased*) the disposable income of Greebe buyers.

Table 1-4.3

New Demand for Greebes

| Price (per Greebe) | Quantity demanded per week (millions of Greebes) |
|-----------------------|--|
| \$0.20 | 350 |
| \$0.25 | 300 |
| \$0.30 | 250 |
| \$0.35 | 200 |
| \$0.40 | 150 |
| \$0.45 | 100 |
| \$0.50 | 50 |

Now, let's suppose that there is a dramatic change in people's tastes and preferences for Greebes. This change in the ceteris paribus conditions underlying the original demand for Greebes will result in a new set of data, shown in Table 1-4.3. Study these new data, and add the new demand curve for Greebes to the graph in Figure 1-4.1. Label the new demand curve D2 and answer the questions that follow.

3) Comparing the new demand curve (D2) with the original demand curve (D), we can say that the change in the demand for Greebes results in a shift of the demand curve to the (*left / right*). Such a shift indicates that at each of the possible prices shown, buyers are now willing to buy a (*smaller / larger*) quantity; and at each of the possible quantities shown, buyers are willing to offer a (*lower / higher*) maximum price. The cause of this shift in the demand curve was a(n) (*increase / decrease*) in people's tastes and preferences for Greebes.

Part B: Do You Get It?

Now, to test your understanding, choose the answer you think is the best in each of the following multiple-choice questions.

4. All other things held constant, which of the following would not cause a change in the demand (shift in the demand curve) for motorcycles?
 - (A) A decrease in consumer incomes
 - (B) A decrease in the price of motorcycles
 - (C) An increase in the price of bicycles
 - (D) An increase in people's tastes and preferences for motorcycles

5. "Rising oil prices have caused a sharp decrease in the demand for oil." Speaking precisely, and using terms as they are defined by economists, choose the statement that best describes this quotation.
 - (A) The quotation is correct: an increase in price causes a decrease in demand.
 - (B) The quotation is incorrect: an increase in price causes an increase in demand, not a decrease in demand.
 - (C) The quotation is incorrect: an increase in price causes a decrease in the quantity demanded, not a decrease in demand.
 - (D) The quotation is incorrect: an increase in price causes an increase in the quantity demanded, not a decrease in demand.

6. "As the price of domestic automobiles has risen, customers have found foreign autos to be a better bargain. Consequently, domestic auto sales have been decreasing, and foreign auto sales have been increasing." Using only the information in this quotation and assuming everything else remains constant, which of the following best describes this statement?
 - (A) A shift in the demand curves for both domestic and foreign automobiles
 - (B) A movement along the demand curves for both foreign and domestic automobiles
 - (C) A movement along the demand curve for domestic autos, and a shift in the demand curve for foreign autos
 - (D) A shift in the demand curve for domestic autos, and a movement along the demand curve for foreign autos