Izmir University of Economics  
ECON 100  
Fall 2013

**Problem Set 2 (Chapter 3)**

1) Suppose that the low-fat milk market is in equilibrium. Show the effects of the following shocks on equilibrium price and quantity.

   a) Suppose that with the period of low rainfall extending dairies raise their expected price of low fat milk next year.

   b) Doctors strongly suggest the consumption of low-fat milk.

2) Predict the effects of the following events on the equilibrium price and quantity of gasoline.

   a) The price of crude oil rises.

   b) The price of a car rises.

   c) All speed limits on motorways are abolished.

   d) Robots cut car production costs.

3) The figure below shows supply and demand curves for pencils.

![Graph of supply and demand curves for pencils]

   a) What is the equilibrium price and quantity? How can you tell?

   b) If the current price is 8.00 pounds, is there a shortage or a surplus? How large is the shortage or surplus? Show all your work.

   c) Explain how market forces act to eliminate disequilibrium when the price is 8.00 pounds.

   d) If the current price is 2.00 pounds, is there a surplus or a shortage? How large is the surplus or the shortage? Will the price remain at 2.00 pounds? Why or why not? Show all your work.