

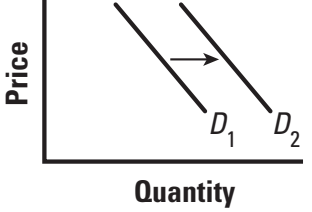
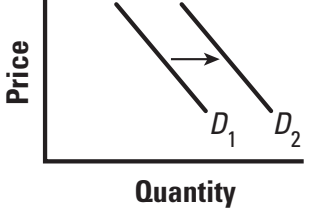
Following are possible answers to the Reading Notes.

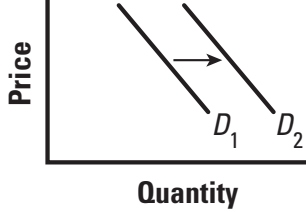
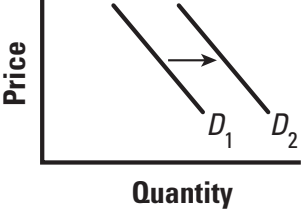
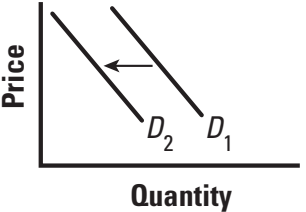
Section 2

1. Buyers must be both willing and able to buy a good or service for there to be demand.
2. Schedules will vary. Demand curves should be downward sloping.
3. Yes, my demand curve supports the law of demand because, as price increases, the quantity I demand decreases. Three reasons the law of demand works are
 - the law of diminishing marginal utility, which says that the more you have already consumed, the less satisfaction you get from consuming each additional unit.
 - the income effect, which says that since people’s incomes are limited, they cannot continue to buy the same quantity of goods as they did at lower prices.
 - the substitution effect, which says that if two goods can satisfy the same want, people will substitute the cheaper good for the more expensive one.

Section 3

1. If only the price for a good or service changes, the demand curve does not shift because price is not a demand shifter. Price changes only the quantity demanded for the good or service.
2. Possible matrix:

Demand Shifter	How the Demand Shifter Influences the Demand Curve	Sketch What Happens to the Demand Curve If Shifter Increases
Changes in income	As income increases, people have more money and will increase their demand for goods and services.	
Changes in number of consumers	As the number of consumers increases, more people will buy goods and services and demand will increase.	

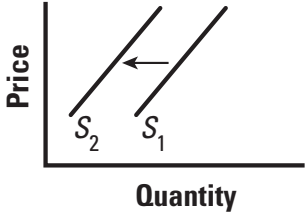
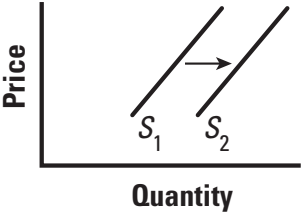
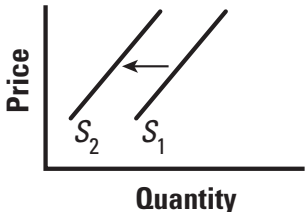
Demand Shifter	How the Demand Shifter Influences the Demand Curve	Sketch What Happens to the Demand Curve If Shifter Increases
Changing consumer tastes and preferences	As consumer tastes and preferences for a particular good or service increases, demand for that good or service will increase.	
Changes in consumer expectations	If consumers expect a future increase in the price of a good or service, current demand for that good or service will increase. If they expect a lower price in the future, current demand will decrease.	Shift depends on consumer expectations.
Changes in price of substitute goods	As the price of a particular good or service increases, demand for that good will decrease. But demand for its substitute will increase, as it will be cheaper in comparison.	
Changes in price of complementary goods	As the price of a particular good or service increases, demand for that good will decrease. Since people tend to buy complementary goods together, demand for any complementary good will also decrease.	

Section 4

1. Sellers must be both willing and able to sell a good or service for there to be supply.
2. Schedules will vary. Supply curves should be upward sloping.
3. Yes, my supply curve supports the law of supply, because as price increases, the quantity I supply also increases. Two reasons the law of supply works are
 - production decisions by existing producers, who try to maximize profits by supplying more items at a higher price.
 - market entries and exits, in which higher prices and profits encourage new suppliers to enter the market.

Section 5

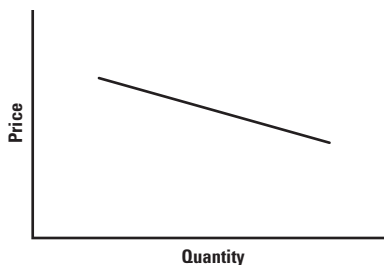
1. If only the price for a good or service changes, the supply curve does not shift. Price changes only the quantity supplied for that good or service.
2. Possible matrix:

Supply Shifter	How the Supply Shifter Influences the Supply Curve	Sketch What Happens to the Supply Curve If Shifter Increases
Changes in the cost of inputs	As the cost of inputs increases, it becomes more expensive to produce that good or service and supply will decrease.	
Changes in the number of producers	As the number of producers for a particular good or service increases, so will the supply of that good or service.	
Natural disasters and international events	Natural disasters typically destroy or damage the supply of a good or service or of a factor of production for a good or service. If there is less available, supply will decrease.	

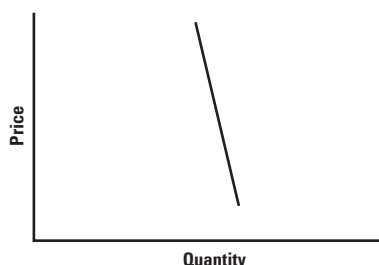
Supply Shifter	How the Supply Shifter Influences the Supply Curve	Sketch What Happens to the Supply Curve If Shifter Increases
Improvements in technology	Technological improvements typically make it cheaper, easier, or more efficient to produce a good or service. This makes it easier (or cheaper or faster) for producers to make the good or service and will cause an increase in supply.	
Changing producer expectations	If producers expect that sales of their good or service will decrease in the future, they will increase current supply to take advantage of the higher demand for their good or service. If they expect an increase in sales in the future, they will decrease current supply.	Depends on what the producer expectation is.
Changes in government policy	If the government provides a subsidy on a good or service, it becomes cheaper to produce it and supply will increase. If the government places an excise tax on the production of a good or service, it becomes more expensive to produce it and supply will decrease.	Depends on what action the government takes.

Section 6

1. Elasticity of demand is a measure of consumers’ sensitivity to a change in price.
2. Answers will vary. Explanations should include at least one of the following: availability of substitutes, price relative to income, necessities versus luxuries, time needed to adjust to price change. Demand curves should look like these.



Elastic demand curve



Inelastic demand curve

Section 7

1. Elasticity of supply is a measure of the sensitivity of producers to a change in price.
2. Answers will vary. Explanations should include at least one of the following: availability of inputs, mobility of inputs, storage capacity, time needed to adjust to a price change. Supply curves should look like these.

