

## Economics 103 Fall 2011, Lab 2, Dr. Schuetze

### Multiple Choice (5 questions)

1. If the market for pencils clears, then we know
  - a. that everyone who wanted to buy a pencil can.
  - b. that everyone who wanted to sell a pencil can.
  - c. that everyone who wanted to buy or sell a pencil at the equilibrium price can.
  - d. that the market is not in equilibrium.
2. Which of the following would lower the equilibrium price of tea?
  - a. a decrease in the price of coffee
  - b. an increase in income and tea is a normal good
  - c. an increase in the price of inputs in the production of tea
  - d. an increase in a fungus that has destroyed a large proportion of the tea crop
3. As a result of the increased wage package negotiated by the hospital and the hospital workers' union,
  - a. quantity supplied of hospital services will increase, with no change in supply.
  - b. supply of hospital services will increase.
  - c. quantity supplied of hospital services will decrease, with no change in supply.
  - d. supply of hospital services will decrease.
4. Folklore tells us that pregnant women like to eat ice cream with pickles. If they were the only consumers of both goods, an increase in the price of pickles would
  - a. decrease the demand for pickles.
  - b. increase the demand for ice cream.
  - c. increase the demand for pickles.
  - d. decrease the demand for ice cream.
5. For an inferior good, a fall in consumers' income combined with increases in production costs, will lead to a
  - a. higher price of the inferior good.
  - b. lower price of the inferior good.
  - c. higher quantity (bought and sold) of the inferior good.
  - d. lower quantity (bought and sold) of the inferior goods.

### Oil Market Supply and Demand

#### Background:

1) The oil sands of Canada are large deposits of bitumen, or extremely heavy crude oil, located in north eastern Alberta. These oil sands contain about 1.7 trillion barrels of bitumen, comparable in magnitude to the world's total proven reserves of conventional petroleum. With modern unconventional oil production technology, at least 10% of these deposits, or about 170 billion barrels were considered to be economically recoverable at 2006 prices, making Canada's total oil reserves the second largest in the world, after Saudi Arabia's. Parts of the oil sands are suitable for large-scale surface mining, although most deposits require using more recently developed in-situ technology. Source: [http://en.wikipedia.org/wiki/Athabasca\\_oil\\_sands](http://en.wikipedia.org/wiki/Athabasca_oil_sands)

#### 2) Also, in recent news:

Palo Alto, Calif. — The Associated Press Published on Friday, Jul. 16, 2010, Toyota Motor Corp. and electric vehicle upstart Tesla Motors Inc. will work together to develop an electric version of Toyota's RAV4 small crossover vehicle, with plans to begin selling it in the U.S. in 2012, the companies announced Friday. Source: *Globe and Mail*, July 16, 2010.

#### 3) Finally consider this quote:

"Power companies have an opportunity to become a major player in the world of transportation." --Martin Eberhart, Tesla Motors CEO. Source: *Public Utilities Fortnightly*, December 2006, p.34.

**For questions Q1 – Q3 draw a complete labelled diagram with correct movements of supply and/or demand. Label all diagrams "Oil Market". Indicate shifts with arrows. Label initial price and quantity with "i".**

Q1) In the space provided below, draw a supply and demand diagram for oil. The initial supply and demand curves should be marked 1 (shifted curves marked 2). Depict an increase in demand for oil in your diagram. Label new equilibrium price and quantity with asterisks.

Q2) Draw a supply and demand diagram for oil below. Now suppose the venture mentioned in 2) was a huge success and the quote in 3) became reality. Assume supply conditions don't change. Add to your diagram to show the market changes you would expect. Label new components in your diagram (e.g., new equilibrium price and quantity) with asterisks (also mark initial curves 1 and shifted curves 2).

Q3) Suppose that resources mentioned in 1) are now fully available because of new technology, 2) was a huge flop, and 3) didn't become reality. Also assume that there is now a big world-wide surge in economic growth affecting energy needs. Draw two supply and demand diagrams for oil, one showing a price increase and the other a price decrease. Label new components in your diagrams (e.g., new equilibrium price and quantity) with asterisks (also mark initial curves 1 and shifted curves 2).