Name: ______________________ **Date:** ________________ **Period:** __________

Supply and Demand Practice Worksheet

Instructions: Answer the following questions based on your understanding of supply and demand. Show all work where applicable. Use complete sentences for short answer and essay questions.

1. Define the law of demand. Explain why a demand curve typically slopes downward from left to right.

2. Which of the following would cause a shift in the demand curve for a good?

   a. A change in the price of the good itself
   b. A change in consumer income
   c. A change in the number of sellers
   d. A change in the cost of production

3. What is the difference between a change in quantity demanded and a change in demand? Provide an example of each.

4. State the law of supply. Why does a supply curve typically slope upward from left to right?

5. If the price of a substitute good increases, what is likely to happen to the demand for the original good?

    a. Demand will decrease
    b. Demand will increase
    c. Demand will stay the same
    d. Supply will increase

6. List and explain three factors that can cause a shift in the supply curve.

7. What is market equilibrium? Describe what happens when the market price is above the equilibrium price.

8. A technological improvement in production will likely:

   a. Shift the supply curve to the left
   b. Shift the supply curve to the right
   c. Shift the demand curve to the left
   d. Cause a movement along the supply curve

9. Explain the concept of price elasticity of demand. If a good has elastic demand, what happens to total revenue when the price increases?

10. Suppose a drought destroys a large portion of the wheat crop in the United States. Using supply and demand analysis, explain the likely effects on the market for wheat and the market for bread. Be sure to discuss changes in equilibrium price and quantity for both markets.

Answer Key

1. The law of demand states that, all else equal, as the price of a good increases, the quantity demanded decreases, and as the price decreases, the quantity demanded increases. The demand curve slopes downward because consumers typically buy more of a good when its price is lower (substitution and income effects).
2. **b)** A change in consumer income.
3. A change in quantity demanded is a movement along the demand curve caused by a change in the good's own price (e.g., buying more apples when the price falls). A change in demand is a shift of the entire demand curve caused by factors other than price (e.g., increased advertising makes people want more apples at every price).
4. The law of supply states that, all else equal, as the price of a good increases, the quantity supplied increases, and as the price decreases, the quantity supplied decreases. The supply curve slopes upward because producers are willing to supply more at higher prices to cover higher marginal costs.
5. **b)** Demand will increase.
6. Three factors that shift the supply curve: (1) Changes in input costs (e.g., higher wages reduce supply); (2) Technological improvements (e.g., better machinery increases supply); (3) Number of sellers (e.g., more firms entering the market increases supply).
7. Market equilibrium occurs where quantity demanded equals quantity supplied. If the market price is above equilibrium, there is a surplus (excess supply), leading firms to lower prices until equilibrium is reached.
8. **b)** Shift the supply curve to the right.
9. Price elasticity of demand measures how responsive quantity demanded is to a change in price. If demand is elastic, a price increase leads to a proportionally larger decrease in quantity demanded, so total revenue falls.
10. The drought reduces the supply of wheat, shifting the supply curve for wheat to the left. This causes the equilibrium price of wheat to rise and the equilibrium quantity to fall. Since wheat is an input for bread, the higher wheat price increases bread producers' costs, shifting the supply curve for bread to the left. As a result, the equilibrium price of bread rises and the equilibrium quantity of bread falls.