

Solutions

2.1 Equilibrium requires $Q_d = Q_s$. Thus $140 - 2P = 20 + 4P$; $120 = 6P$; $P = 20$ currency units/item. $Q_d = 140 - 2(20) = 100$ items/day and $Q_s = 20 + 4(20) = 100$ items/day. At $P = 15$, $Q_d = 110$ and $Q_s = 80$ items/day, giving excess demand $= 110 - 80 = 30$ items/day. In the simple adjustment story, buyers bid up price or suppliers change prices; quantities then move along unchanged curves. A demand shift requires a different determinant, such as income or preferences. Shortages do not prove instantaneous adjustment or unrestricted competition. Authored points for method, application and relevant qualification.

3.1 Demand shifts right and supply shifts left on axes of price and quantity. Both changes tend to raise equilibrium price, but their quantity effects oppose one another. Draw both new curves and compare relative shifts before judging quantity. Identify the unchanged determinants and time horizon. A large demand increase can outweigh the supply contraction; a large contraction can reverse that result. Do not confuse a movement caused by the new equilibrium price with a second demand shift. Authored points for judgement, case-linked reasoning and justified qualification. Accept supported alternatives.