## Chap. 3: Problems and ApplicationsExercises 1., 2., 3. & 4.

1. Explain each of the following statements using supply and demand diagrams.
2. When there is a drought in southern Europe, the price of soft fruit rises in supermarkets throughout Europe.
3. When a report is published linking a product with an increased risk of cancer, the price of the product concerned tends to fall.
4. The United States announces that it intends to impose new sanctions on the Islamic Republic of Iran. The price of petrol in Europe rises and the price of a used Mercedes falls.
5. Using supply and demand diagrams, show the effect of the following events on the market for sweatshirts.

 a. A drought in Egypt damages the cotton crop.

1. The price of leather jackets falls.
2. All universities require students to attend morning exercise classes in appropriate attire.
3. New knitting machines are invented.
4. Think about the market for cigars.

 a. Are cigars substitutes or complements for cigarettes?

1. Using a supply and demand diagram, show what happens in the markets for cigars if the tax on cigarettes is increased.
2. If policymakers wanted to reduce total tobacco consumption, what policies could they combine with the cigarette tax?
3. Consider the following events: Scientists reveal that eating oranges decreases the risk of diabetes, and at the same time, farmers in Spain use a new fertilizer which increases the yield of oranges per tree. Illustrate and explain what effect these changes have on the equilibrium price and quantity of oranges. Remember to note the relative size of the changes you describe and how these could affect outcomes.