Problem Set #2 (Chs 3 & 4)

3-2. Suppose that a survey for a later market period indicates that the quantities supplied in the table in Problem 3-1 are unchanged. The quantity demanded, however, has increased by 30 million at each price. Construct the resulting demand curve in the illustration you made for Problem 3-1. Is this an increase or a decrease in demand? What are the new equilibrium quantity and the new market price? Give two examples of changes in *ceteris paribus* conditions in each case that might cause such a change.

Increase ___ or Decrease ___
Equilibrium Quantity _____ Price _____
1. __________________________________
2. __________________________________

4-2. The pharmaceutical industry has benefited from advances in research and development that enable manufacturers to identify potential cures more quickly and therefore at lower cost. At the same time, the aging of our society has increased the demand for new drugs. Construct a supply and demand diagram of the market for pharmaceutical drugs. Illustrate the impact of these developments, and evaluate the effects on the market price and the equilibrium quantity.

Change to Price _______________________
Change to Quantity ____________________

Show the graph that depicts the outcomes for 4-2. Label curves and axes.