1. Under what assumptions we can use DD and SS curves to describe the market? [3]

(1)

(2)

(3).

Use DD and SS curves to evaluate the following economic events graphically. Please state “cause” and “effect” explicitly.

2. As a result of Iraq invasion, the price of Army boots rises. [3]

   Cause:

   Effect

3. The price of milk has been rising due to unusually hot summer weather which discourages milk production. (9/16/96, San Jose Mercury News). [3]

   Cause:

   Effect:


   Cause:

   Effect:
Note for Quiz 4 (sample).

1. Please remember the following key points in Economics.

   The objective of economics is to discover and explain the basic principles (theories) that govern our economic life. To achieve this goal, Economists seek to discover how the economic world works. In pursuit of this goal economists create and test economic models.

   Economics is based on the formulation of models. A model is a theory.
   (a) An economic model is an abstract representation of reality.
   (b) It is composed of a number of assumptions from which conclusions - predictions - are deduced.

   Up to now, we study three economic models: (1) circular flow model; (2) PPF; and (3) market. For PPF, see page 1 in Lecture note: Chapter 3. For market see page 5 in Lecture note: Chapter 4. [Those assumptions are the answer for question 1 in Quiz 4 (sample).]

2. To answer questions 2, 3, 4, you have to use DD and SS, i.e., draw graph and state Cause and Effect explicitly. Please see pages 6 and 7 in my Lecture Note: Chapter 4.

3. Example:

   As a result of Iraq invasion, the price of Army boots rises.

   **Cause:** Iraq invasion → DD↑, SS→
   **Effect:** p↑, Q↑.