Handout 7-1

CHANGES IN THE DEMAND AND SUPPLY OF GASOLINE

Name _____ Class _____

1 A group of economists studied the gasoline market. They wanted to find out how many gallons consumers would buy each day at various prices. Let us suppose that through market research, they found that

If the price of a gallon of gasoline was	*People would buy*
$0.40	55 million gallons
0.80	40 million gallons
1.20	25 million gallons
1.60	10 million gallons
2.00	5 million gallons
2.40	1 million gallons

This information is called a **demand schedule.** Plot the data on the blank graph (Handout 7-2) and connect the dots with a line. This line is called a **demand curve.** Label it D_1. What is the relationship between price and the quantity of gasoline demanded?_____

2 The economists also surveyed sellers to determine how many gallons of gasoline they would be willing to sell each day at various prices. They found that

If the price of a gallon of gasoline was	*Sellers would sell*
$0.40	25 million gallons
0.80	40 million gallons
1.20	55 million gallons
1.60	70 million gallons
2.00	85 million gallons
2.40	90 million gallons

This information is called a **supply schedule.** Plot the data on the graph (Handout 7-2) and connect the dots with a line. This line is called a **supply curve.** Label it S_1. What is the relationship between price and the quantity of gasoline supplied?_____

3 According to the graph, the market-clearing (or equilibrium) price for gasoline is _____ and the number of gallons of gasoline bought and sold is _____. Label this equilibrium point E_1.

4 Why is this the market clearing price? _____

5 Assume that big gas-guzzling cars are the latest fad. Because consumers buy so many gas guzzlers, they want to buy 30 million more gallons of gasoline per day at every price. For example, at $0.40 per gallon people now want to buy 85 million gallons rather than 55 million gallons. Plot the new demand schedule and draw the new demand curve on your graph, using this new information. Label the new curve D_2. What is the market-clearing price? _____ How many gallons will be bought and sold? _____ Label this new equilibrium point E_2.

6 Now assume that two oil-producing countries get into a war and destroy each other's oil wells. Because of this, sellers are willing to sell 20 million fewer gallons of gasoline per day at every price. For example, at $0.40 per gallon sellers are willing to sell only 5 million gallons rather than 25 million gallons. Plot the new supply schedule and draw the new supply curve on your graph. Label the new curve S_2. According to demand curve D_2 and supply curve S_2, what is the new market-clearing (or equilibrium) price? _____ How many gallons will be bought and sold? _____ Label this new equilibrium point E_3.

7 Indicate how the newspaper headlines below affect supply and demand and equilibrium price and quantity. Each headline describes a condition that affects either supply or demand, but not both. The first headline is completed for you. (Note that if the condition does not affect an alternative in a column—in the example, the condition described in the headline leaves demand unchanged—do not circle either arrow.)

	Demand		Supply		Equilibrium Price		Equilibrium Quantity	
a. OPEC Nations agree on quotas - cut production	↑	↓	↑	↓	↑	↓	↑	↓
b. U.S. government gives okay to drill for oil in Alaska.	↑	↓	↑	↓	↑	↓	↑	↓
c. Economic recovery spreads worldwide.	↑	↓	↑	↓	↑	↓	↑	↓
d. New gas-saving engine announced.	↑	↓	↑	↓	↑	↓	↑	↓
e. National bus strike halts the use of public transportation.	↑	↓	↑	↓	↑	↓	↑	↓

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