

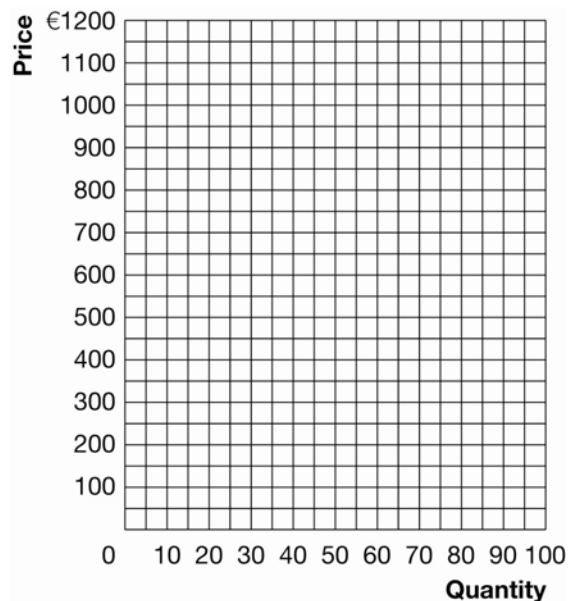
Chapter 6

1. Use the following supply and demand schedules for bicycles to answer the questions below.

Price	Quantity demanded	Quantity supplied
€300	60	30
400	55	40
500	50	50
600	45	60
700	40	70
800	35	80

- a. In response to lobbying by the Bicycle Riders Association, the government places a price ceiling of €700 on bicycles. What effect will this have on the market for bicycles? Why?
- b. In response to lobbying by the Bicycle Riders Association, the government places a price ceiling of €400 on bicycles. Use the information provided above to plot the supply and demand curves for bicycles in Exhibit 1. Impose the price ceiling. What is the result of a price ceiling of €400 on bicycles?

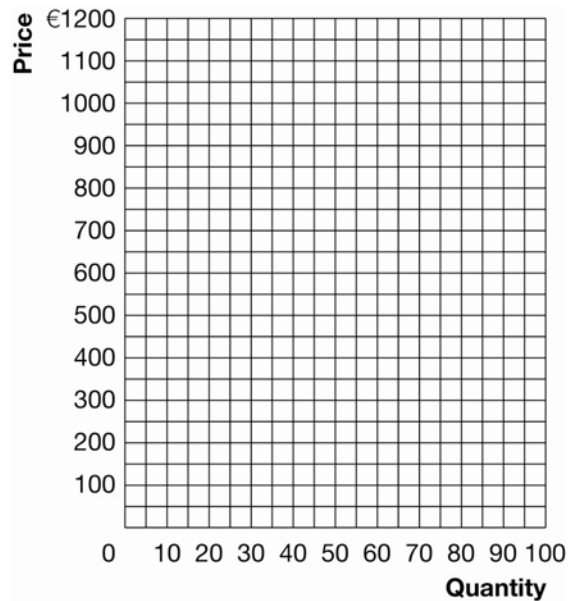
Exhibit 1



- c. Does a price ceiling of €400 on bicycles make all bicycle buyers better off? Why or why not?

- d. Suppose instead, in response to lobbying by the Bicycle Manufacturers Association, the government imposes a price floor on bicycles of €700. Use the information provided above to plot the supply and demand curves for bicycles in Exhibit 2. Impose the €700 price floor. What is the result of the €700 price floor?

Exhibit 2

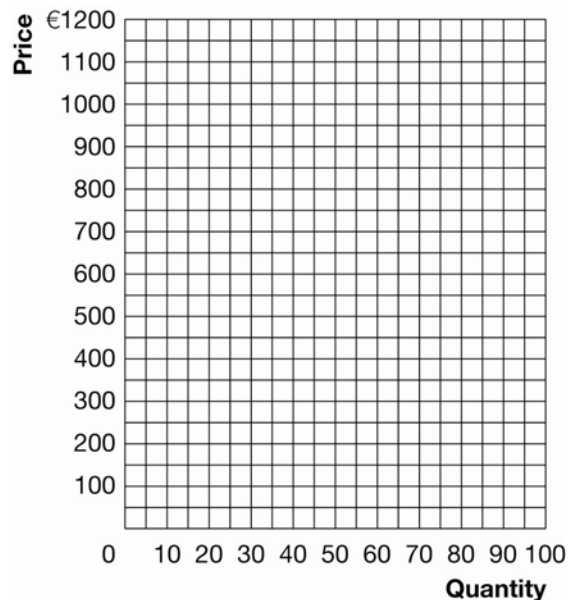


2. Use the following supply and demand schedules for bicycles to answer the questions below.

Price	Quantity demanded	Quantity supplied
€300	60	30
400	55	40
500	50	50
600	45	60
700	40	70
800	35	80

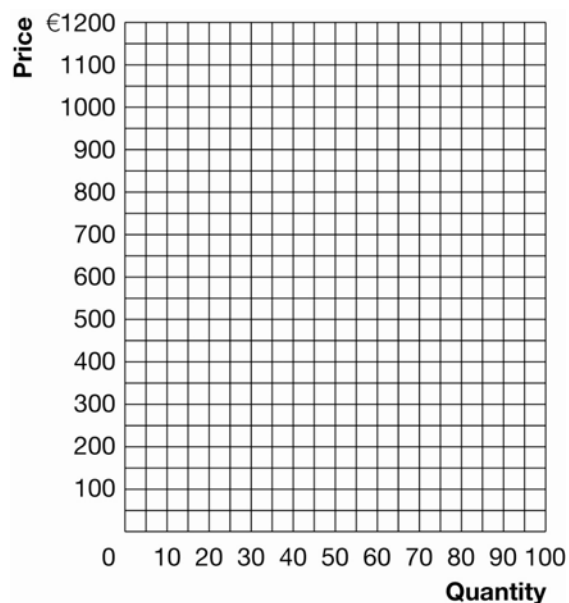
- a. Plot the supply and demand curves for bicycles in Exhibit 3. On the graph, impose a tax of €300 per bicycle to be collected from the sellers. After the tax, what has happened to the price paid by the buyers, the price received by the sellers, and the quantity sold when compared to the free market equilibrium?

Exhibit 3



- b. Again, plot the supply and demand curves for bicycles in Exhibit 4. On the graph, impose a tax of €300 per bicycle to be collected from the buyers. After the tax, what has happened to the price paid by the buyers, the price received by the sellers, and the quantity sold when compared to the free market equilibrium?

Exhibit 4



- c. Compare your answers to questions (a) and (b) above. What conclusion do you draw from this comparison?
- d. Who bears the greater burden of this tax, the buyers or the sellers? Why?