

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

1) (20 points) Illustrate the following events on the supply and demand for Egyptian cotton sheets in the USA. Explain why the curve(s) moved as drawn and why the price and quantity changed as drawn.

A) People discover that Egyptian cotton is better than any other.

B) The US government puts a tax on imported cotton.

C) The price of cotton towels increases.

D) People expect that the price of cotton sheets will increase in the future.

2) (20 points) Some countries think that bread is a necessity that everybody should be able to afford. To achieve this, they could put a price ceiling on bread. Illustrate such a price ceiling on the supply and demand for bread. Show the price, the full economic price, and the quantity sold. Explain how you got them. Does this help the poor? Why or why not?