Economics

Name

Institution

Economics

Part A

1. If the firm spends the money it has on advertising, what happens is that there will be a shift in the demand curve alone. This is because movement along the demand curve is caused by a change in prices alone whereas a change in the other factors that affect demand only causes a shift in the demand curve either to the left or to the right depending on the change of the factor (Krugman, & Wells, 2013).
2. This situation reflects a change in quantity supplied. This is because a change in the supply curves is caused by other factors other than price that will affect the cost of the supply to be made by the organization. In this case, the only thing that will be changing will be the costs of the supply that will be made which will be 1.5 times more than the normal price, which means the only thing that is changing is the price. This will cause a movement along the supply curve which will be an upward movement as a result of the increase in price (Krugman, & Wells, 2013).
3. When the government increases a 20% tax on the sales one makes from the sales of marijuana it would not lead to a 20% loss in sales for the following reason. Being a business with less people in it, it then means that the industry as it exists it is a monopoly since there are no other players in the industry. This therefore means that when the government charges tax on the marijuana one can simply increase the price of the marijuana without having any adverse effects on the demand on the product because the supplier of the product is just one. This would mean that the demand curve for the marijuana would be inelastic, which means that changes in the prices of the product will not have a significant impact on the demand of the product (Krugman, & Wells, 2013).

Part B

Question one

QD= 1000-1.5P

QS= 50+2P

Equilibrium price is QD=QS

1000-1.5P= 50+2P

950=3.5P

P= 271.43

Question 2

QD= 1000-1.5P

QS= 100+2P

QD=QS

1000-1.5P=100+2P

900=3.5P

P= 257.14

References

Krugman, P., & Wells, R. (2013). *Economics* (1st ed.). New York, NY: Worth Publishers.