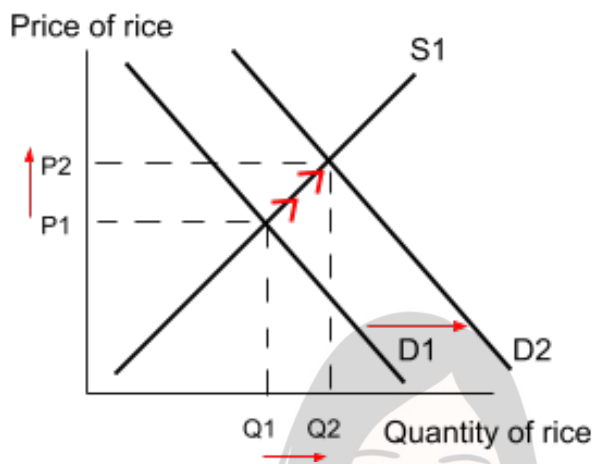


CHAPTER 10 : PRICE CHANGES

1. The effect of changes in demand curve

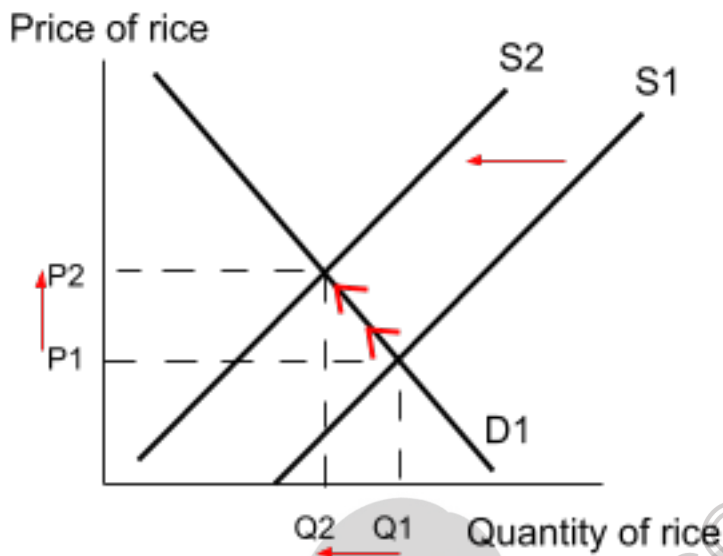
Case 1 : Consumers have higher income.



1. Original equilibrium is at P1 and Q1.
2. Consumers have higher income and they have more ability to spend. Demand for rice increases and the demand curve shifts to the right.
3. New equilibrium, price and quantity increase to P2 and Q2.

2. The effect of changes in supply curve

Case 2 : Producers have higher cost of production.



1. Original equilibrium is at P_1 and Q_1 .
2. Producers face higher cost of production and they gain lower profit. Supply of rice decreases and the supply curve shifts to the left.
3. New equilibrium, price increases to P_2 and quantity decreases to Q_2 .