Assume that toothpaste is a very inelastic product that consumers tend to tolerate when its price rises.

A.

1. Graph the S/D for toothpaste given the fact that is has a relatively INELASTIC DEMAND. Label the axis and both curves correctly.
2. Now label the area of Producer Surplus PS and Consumer Surplus CS on graph.
3. Which surplus is larger in $$ - producer or consumer? Explain.
4. Shade in the area representing the Total Revenue collected by the sellers of toothpaste in the industry.

B. Assume that the market for good X is very elastic in Demand.

1. Graph the S/D for toothpaste given the fact that is has a relatively INELASTIC DEMAND. Label the axis and both curves correctly.
2. Now label the area of Producer Surplus PS and Consumer Surplus CS on graph.
3. Which surplus is larger in $$ - producer or consumer? Explain.
4. Now assume the government adds a PRICE CEILING onto the Good X market. DRAW A NEW GRAPH and show the Price Ceiling in the industry with a Pc.
5. Shade the area that represents the new Producer Surplus (PS2) and new Consumer Surplus. (CS2)
6. Shade the area that shows that this market is now inefficient.

C. Assume that the company Nabisco (maker of Oreos) is hit with that class action lawsuit for hiding the fact that Oreos have 60% more trans-fat than listed on their packaging labels.

 1. Draw on the S/D graph for Oreos the impact of this news.

 2. Did the market price Oreos increase, decrease or remain unchanged?

 3. Did the market output (Q) of Oreos increase, decrease or remain unchanged?

 4. Did the Producer surplus for Oreos increase, decrease or remain the same?

 5. Show an a S/D Graph the impact this news has on the price and output

 market for Keebler cookies.

 6 Would the Consumer Surplus for Keebler cookies be greater than, less

 than or equal to that of Oreos after the news story?