

Answer on Question #73425 -Economics - Macroeconomics

Suppose the demand for Frisbees is given by $Q=100-2p$ and the supply by $Q=20+6p$

- what will be the equilibrium price and quantities for Frisbees?
- suppose the government levies a tax of rs:4 per Frisbee. Now what will the equilibrium quantity the price consumers will pay & the price firm will receive?
- how would your answer to part a & b change if the supply were instead $Q=70+P$

Answer.

- Equilibrium price and quantity is calculated from equation

$$100-2P=20+6P$$

$$80=8P$$

$$P=10, Q=80$$

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Implementing of tax shifts the supply curve in rs:4 upper. So, if previous equation was $P=(Q-20)/6$, new supply equation is $P=(Q-20)/6+4$, or $(P-4)*6=Q-20$, $Q=6P-4$

Then,

$$100-2P=6P-4$$

$$104=8P$$

$$P=13 \quad Q=74$$

Equilibrium quantity is 74, the price that consumers will pay is rs13, the price that firm will receive is $13-4=9$.

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$$30=3P$$

$$P=10, Q=80$$

And, implementing of tax shifts the supply curve in rs:4 upper. So, if previous equation was $P=Q-70$, new supply equation is $P=Q-70+4=Q-66$, or $Q=P+66$

Then,

$$100-2P=P+66$$

$$34=3P$$

$$P=11.3 \quad Q=77$$

Equilibrium quantity is 77, the price that consumers will pay is rs11.3, the price that firm will receive is $11.33-4=7.33$.

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