

### 3.5: Assignment- Supply and Demand of Coffee

A key skill in economics is the ability to use the theory of supply and demand to analyze specific markets. In this week's assignment, you get a chance to demonstrate your ability to analyze the effects of several "shocks" to the market for coffee. Answer all parts of each of the scenarios below.

**Scenario 1:** Suppose that, as part of an international trade agreement, the U.S. government reduces the tariff on imported coffee. Will this affect the supply or the demand for coffee? Why? Which determinant of demand or supply is being affected? Show graphically with before- and after-curves on the same axes. How will this change the equilibrium price and quantity of coffee? Explain your reasoning.

**Scenario 2:** Suppose the National Institutes of Health publishes a study finding that coffee drinking reduces the probability of getting colon cancer. How do you imagine this will affect the market for coffee? Why? Which determinant of demand or supply is being affected? Show graphically with before- and after-curves on the same axes. How will this change the equilibrium price and quantity of coffee? Explain your reasoning.

**Scenario 3:** Combine parts 1 and 2. Suppose that the U.S. government reduces the tariff on imported coffee, and a reputable study is published indicating that coffee drinkers have lower rates of colon cancer. What will the combined impact be on the equilibrium price and quantity of coffee? Explain your reasoning and show graphically. Make sure you think this through carefully!

Criteria	Not Evident	Developing	Proficient	Distinguished	Weight
Explain how tariffs impact the supply and demand of coffee					4
Graphically show the impact of tariffs on supply and demand					3
Explain how the NIH study impacts the supply and demand of coffee					4
Graph how the NIH study impacts the supply and demand of coffee					3
Explain and show what would happen with reduced tariffs and the NIH study on coffee					6
				Total:	20

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