1. Draw a supply and demand situation where there is a shortage (and define what a shortage is). Clearly show where the shortage is on the graph.

2. Draw a supply and demand situation where there is a surplus (and define what a surplus is). Clearly show where the surplus is on the graph.

3. Assume the market clearing price is $20 and the market clearing quantity is 500 for a steak dinner. But you don't have this information (you being a supplier of steak dinners) and have just opened your steak house. You decide to price your steak dinners at $15.00. You notice that when you do this you could have sold 650 steak dinners but are willing and able to sell only 400. Draw this situation on a graph. Put all numbers given on your graph. What will happen in this market? Will there be a shortage or a surplus? Show this on your graph. Then explain what will happen in this market (assume there are no price controls).

4. What does a shortage signal suppliers to do? Why?

5. What does a surplus signal suppliers to do? Why?