Problem Set 1

1. After several years of decline, the market for handmade acoustic guitars is making a comeback. These guitars are usually made in small workshops employing relatively few highly skilled luthiers. Assess the impact on the equilibrium price and quantity of handmade acoustic guitars as a result of each of the following events. In your answers indicate which curve(s) shift(s) and in which direction.

a. Environmentalists succeed in having the use of Brazilian rosewood banned in Canada, forcing luthiers to seek out alternative, more costly woods.

b. A foreign producer reengineers the guitar-making process and floods the market with identical guitars.

c. Music featuring handmade acoustic guitars makes a comeback as audiences tire of heavy metal and alternative rock music.

d. The country goes into a deep recession and the income of the average Canadian falls sharply. Explain if your answer would change if we were also told that a significant portion of the unemployed were quarantined at home due to a pandemic and some decided to learn how to play a musical instrument like the guitar.