

Quiz 1
Microeconomics for Public Policy I
Fall 2026
September 15, 2026

GWID, **Not your name**: _____

Instructions

1. **Write your name on page 4 ONLY.**
2. Write your GWID on each page. If you don't know your GWID, write your birthdate (or some other made-up number) on **each page**. I request this so that when we scan we don't lose any pages.
3. I give liberal partial credit. If a question has multiple parts and you can't answer one, it is in your best interest to answer all the remaining parts to the best of your ability.
4. Make sure you **explain** your answers as needed. When appropriate, you should also explain any assumptions that you make to arrive at your answer. Explanations may yield partial credit.
5. Be concise.

Some Information About the Airline Business (16 points total, 4 points each question)

Here are some major events that have impacted the US domestic airline industry.

1. September 2001: World Trade Center attack.
2. December 2007: Beginning of the Great Recession.
3. March 2020: Pandemic arrives in North America, and people are advised to limit contact with others.
4. February 2026: Attack on Iran leads to closure of Strait of Hormuz. Roughly one-quarter of global jet fuel passes through this strait.¹

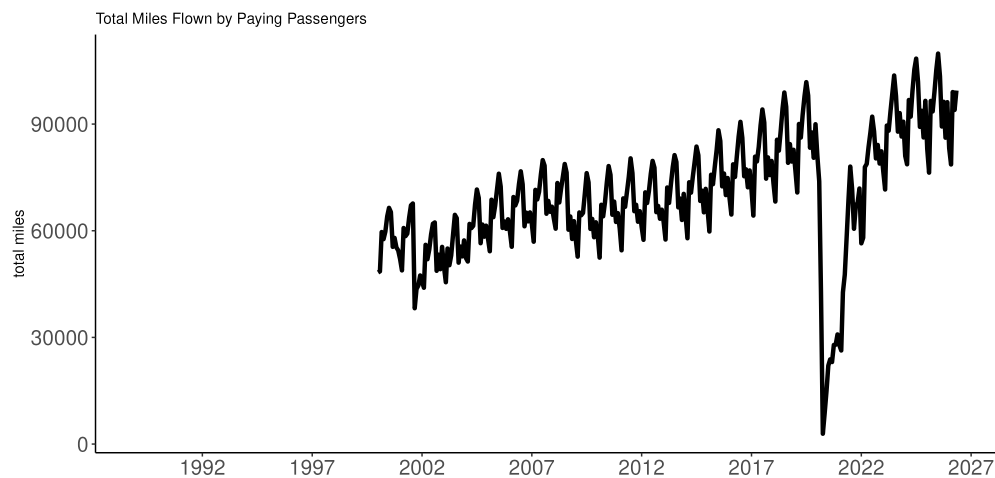
The next page shows two figures that show prices and quantities in the US domestic airline market. Note that both series end in May 2026.

¹Source: International Air Transport Association, *Global Outlook for Air Transport*, June 2026: IATA Report.

Figure 1: Domestic Airfare Prices, Inflation Adjusted, 1990 to 2026



Figure 2: Passenger Miles Flown, 1998 to 2026



Questions 1. From the three timeline events above, choose one that is a demand shock and assume that supply does not change. Do the following four things briefly

1. Explain why this is a sharp change in demand, rather than a change in supply
2. State whether the demand curve shifts inward or outward and briefly explain why
3. Given this, which way do you expect prices and quantities to move; use a diagram to explain why.
4. Are the data consistent with your prediction?

Answer:

1. Great Recession and 9/11 and pandemic are demand shocks. they impact individual willingness to pay, not producer cost of production.
 2. for all three of these demand shifts inward; people are willing to pay less for the same product, often because they have less money. in the pandemic, we have a taste change that makes people unwilling to fly.
 3. We expect prices and quantities to decline
 4. yes for both
2. From the three timeline events above, choose one that is a supply shock and assume that demand does not change. Do the following four things briefly
1. Explain why this is a sharp change in supply, rather than a change in demand
 2. State whether the supply curve shifts inward or outward and briefly explain why
 3. Given this, which way do you expect prices and quantities to move; use a diagram to explain why.
 4. Are the data consistent with your prediction?

Answer:

1. 2026 war is a supply shock. it impacts a key input into flights, which is jet fuel, making it more costly.
 2. supply curve shifts inward, as it becomes more expensive to produce the same flight due to higher fuel costs
 3. we expect prices to increase and quantity to fall
 4. we see price increase, but we don't see much evidence of a quantity decline
3. Look at the period from 2012 to 2017 in Figures 1 and 2. In what direction do price and quantity move over this period? Suppose that only demand or supply shifts. Which one shifts, and how do you know?

Answer: Quantity increases. Price falls. This is consistent with an outward shift of the supply curve.

Name: _____ Blank – for extra work