

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment.

1) (20 points) The article below describes the effects of changes in the price of steel on GM. Illustrate the article on the supply and demand for GM cars. Explain why the curve(s) moved as drawn. The article came from CNN/Money's web page.

2) (20 points each) Illustrate the following events on the supply and demand for cotton towels. Explain why the curve(s) moved as drawn.

A) A new fertilizer for cotton is developed.

B) People discover that taking more showers reduces the chances of getting sick.

C) The demand for t-shirts increases.

D) The Steelers got into the playoffs. (Steelers' "Terrible Towels" are made of cotton.)

GM Bows to Steel Suppliers

March 23, 2004: 5:34 AM EST

NEW YORK - General Motors Corp. (GM) agreed for now to pay two of its suppliers to cover rising steel costs rather than risk cutting off its supply of parts, even as the auto giant fights those price increases in court, Tuesday's Wall Street Journal reported.

GM's willingness to pay -- an about-face from its previous statements against attempts to boost prices -- shows that even the biggest manufacturers, which hold tremendous bargaining power with steelmakers, are grappling with rapidly rising steel costs. They also demonstrate how vulnerable some big companies have become after years of streamlining their supply chains and relying on a smaller number of suppliers. But GM may not be able to pass the full impact on to consumers as it struggles to sustain market share in a highly competitive industry.

GM acknowledged paying higher prices for steel in court documents filed in a state court in Pontiac, Mich. Last week, GM filed a complaint against Fort Wayne, Ind., steelmaker Steel Dynamics Inc. (STLD), which GM said in court documents supplied it with 20,000 tons of steel last year and is expected to buy about 50,000 tons of steel, valued at about \$24 million, from the company for 2004. The suit seeks a declaratory judgment that would keep Steel Dynamics "bound by the fixed prices specified in the contract" and would reimburse it for price increases the auto maker paid in the interim.

Also, in the same court, GM on March 3 filed a complaint against a unit of Textron Inc. that supplies 80% of the steel fasteners GM uses in its cars and trucks. A court document said Textron, in a Jan. 30 letter, had demanded a 3% increase over contract prices that GM has continued to refuse to pay. The document said Textron then "threatened cessation of GM's supply of steel fasteners." GM seeks damages for payments above the prices outlined in its Textron contract and further damages if Textron fails to supply the parts.

A spokesman for Steel Dynamics said the company and its attorney haven't yet been served a copy of the complaint and couldn't comment. Textron spokeswoman Karen Gordon said the company declined to comment on the matter.

DaimlerChrysler AG (DCX) and Ford Motor Co. (F) said they haven't taken any legal action against their suppliers.

Wall Street Journal Staff Reporter Paul Glader contributed to this report. Dow Jones Newswires 03-23-04 0022ET Copyright (C) 2004 Dow Jones & Company, Inc. All Rights Reserved.