

Tutorial 3 Demand and Supply

1. Answer the following.

- a. What is the difference between a "change in demand" and a change in "quantity demanded."
- b. What is the difference between a "change in supply" and a change in "quantity supplied."
- c. What does ceteris paribus mean? How does this relate to supply and demand analysis?
- d. Holding demand constant, what is the only thing that can cause a change in quantity demanded? What are the things that cause a change in demand?
- e. How do changes in income affect the demand for a good?
- f. In a goods market, households are (**suppliers / demanders**) and firms are (**suppliers / demanders**). In labour markets, households are (**suppliers / demanders**) and firms are (**suppliers / demanders**).

2. How will the market demand curve for a 'normal' good shift (i.e. **left**, **right** or **no shift**) in each of the following cases? Support your answers with graphs.

- (a) The price of a substitute good falls *left / right / no shift*
- (b) Population rises *left / right / no shift*
- (c) Tastes shift away from the good *left / right / no shift*
- (d) The price of a complementary good falls *left / right / no shift*
- (e) The good becomes more expensive *left / right / no shift*

3. How will the market supply curve of a good shift (i.e. **left**, **right** or **no shift**) in each of the following cases? Support your answers with graphs.

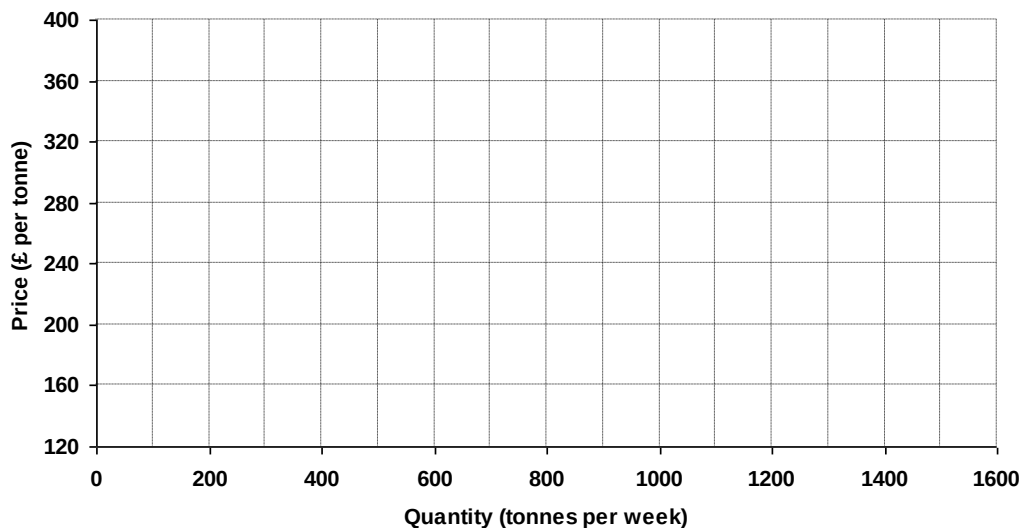
- (a) Costs of producing the good fall *left / right / no shift*
- (b) Alternative products (in supply) become more profitable. *left / right / no shift*
- (c) The price of the good rises *left / right / no shift*
- (d) Firms anticipate that the price of the good is about to fall *left / right / no shift*

4.

The demand and supply schedules for wheat in a free market are as follows:

<i>Price per tonne (£)</i>	120	160	200	240	280	320	360	400
<i>Tonnes demanded per week</i>	725	700	675	650	600	550	500	425
<i>Tonnes supplied per week</i>	225	300	400	500	600	750	1000	1300

- (a) Draw the demand and supply curves on the coordinate system.
- (b) What is the equilibrium price?



(c) Suppose that supply now increases by 150 tonnes at all prices. Enter the new figures.

<i>Price per tonne (£)</i>	120	160	200	240	280	320	360	400
<i>Tonnes demanded per week</i>	725	700	675	650	600	550	500	425
<i>(old) Tonnes supplied per week</i>	225	300	400	500	600	750	1000	1300
<i>(new) Tonnes supplied per week</i>								

(c) Draw the new supply curve.

(d) How much will price change from the original equilibrium? How much more will be sold?

Change in price

Change in quantity