

Answers to Tutorial 3 Demand and Supply

1. Answer the following.

- a. A change in demand refers to a change in the amount that consumers are willing to buy at every possible price; in terms of the demand curve, the demand curve shifts. A change in the quantity demanded occurs when the price of the product changes. In this case, in terms of the demand curve, there is a movement along the demand curve.
- b. A change in supply refers to a change in the amount that producers are willing to sell at every possible price; in terms of the supply curve, the supply curve shifts. A change in the quantity supplied occurs when the price of the product changes. In this case, in terms of the supply curve, there is a movement along the supply curve.
- c. Ceteris paribus means "other things being equal -all relevant things remain the same." Ceteris paribus plays an important role in supply and demand analysis, as if we allow more than one influence of supply or demand to change simultaneously, we cannot accurately determine the effect of one of these influences on supply or demand. By holding all other things constant, and allowing only one of these influences to change, we are able to determine its effect on supply or demand.
- d. A change in the quantity demanded arises from a change in the own price of a good. This is graphed as a movement along the demand curve. All other influences cause a shift in the curve, or a change in demand.
- e. Income changes can cause the demand for a good to increase or decrease. If the good in question is "normal," an income increase (decrease) will cause the demand for the good to rise (fall). If the good is "inferior," an income increase will lower (increase) the demand for the good.
- f. In goods markets, households are **demanders** and firms are **suppliers**. In labour markets, households are **suppliers** and firms are **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?

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

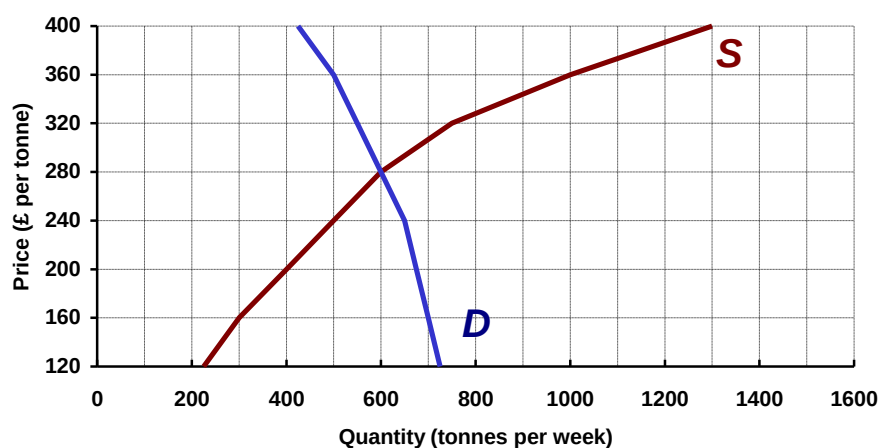
3. How will the market supply curve of a good shift (i.e. **left**, **right** or **no shift**) in each of the following cases?

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

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

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

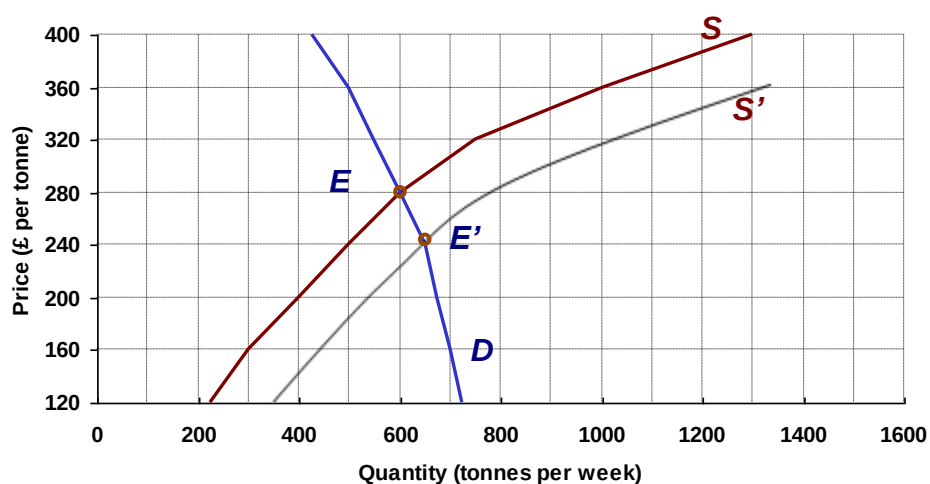
- a. Draw the demand and supply curves on the coordinate system.



- b. What is the equilibrium price? **£280 per tonne** (where $D = S = 600$ tonnes)
- c. Suppose that supply now increases by 150 tonnes at all prices. Enter the new figures.

Price per tonne (£)	120	160	200	240	280	320	360	400
Tonnes demanded per week	725	700	675	650	600	550	500	425
(old) Tonnes supplied per week	225	300	400	500	600	750	1000	1300
(new) Tonnes supplied per week	375	450	550	650	750	900	1150	1450

- d. Draw the new supply curve.



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

Change in price **Fall by £40 from £280(E) to £240(E')**

Change in quantity **Rise by 50 from 600 to 650**