

Exercise walk-through

2.1

Demand and supply curves

A-Level Economics

Demand and what shifts it

A fictional coffee market: classify each event

- 1 Coffee's own price falls from \$7 to \$6; other conditions stay fixed.
- 2 The price of tea, a substitute, rises.
- 3 Consumers' income rises. No income elasticity is given.

Attempt: movement along or shift? State the direction where the information permits it. Draw and label the change.

The **law of demand** holds other conditions constant. An income rise needs a normal/inferior-good assumption before choosing a direction.

Demand and supply: the definitions that matter

demand

the quantity buyers are **willing and able** to buy at each **price** in a period of time – not just a wish

market demand

add up the quantity *all* **consumers** want at each price – horizontal summation of the individual **demand curves**

supply

the quantity **producers** are willing and able to *sell* at each price in a period

movement

a change in the good's **own price** moves you *along* the curve

shift

a change in a non-price **determinant** moves the **whole curve**

“Willing *and able*” is the phrase: wanting a Ferrari is not demand. Define the relationship at each price, in a stated period, as the task requires.

The two laws, and the words they use

Check the three demand cases

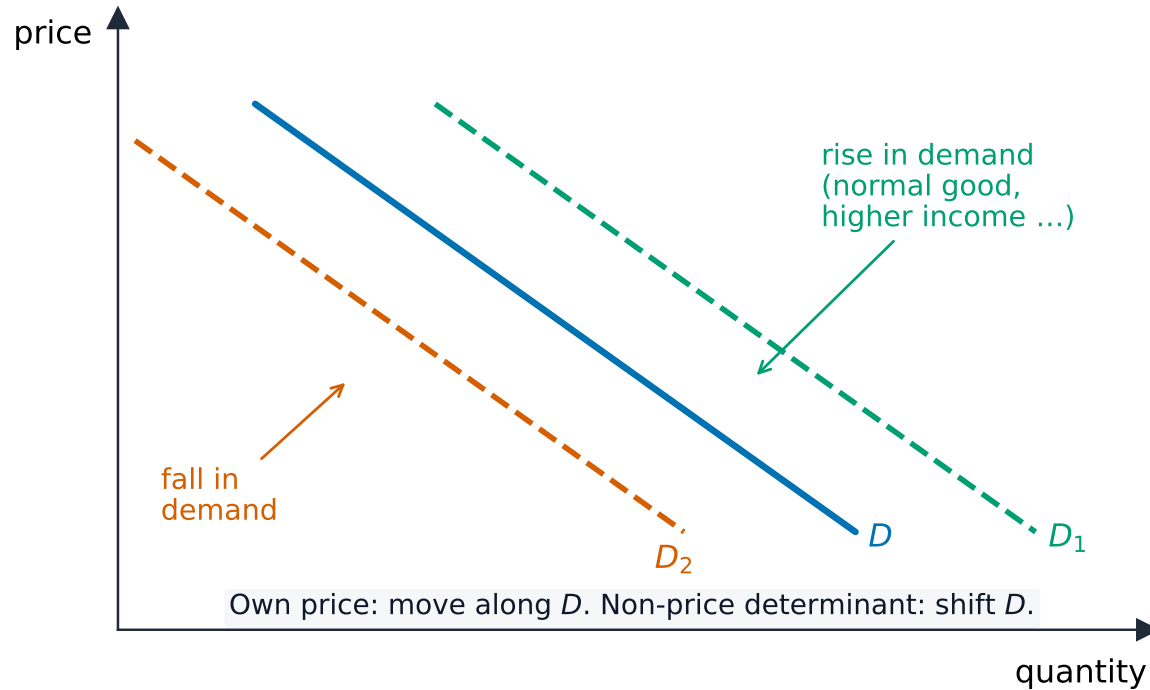
Own price falls: quantity demanded rises *along* the original curve.

Tea becomes dearer: coffee demand shifts right if they are substitutes.

Income rises: demand shifts right for a normal good, left for an inferior good; the case does not tell us which.

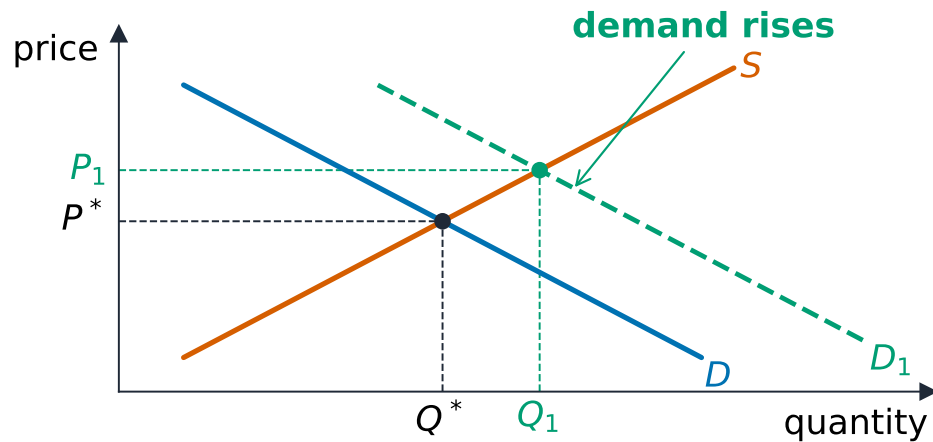
A change in **quantity demanded** refers to an amount at one price. A change in demand changes the relationship across prices.

Demand and what shifts it, in detail



A change in income, tastes or related prices shifts the whole curve (D_1 right, D_2 left); a change in the good's own price is a movement along it.

With supply fixed



$$D \uparrow \text{ (S fixed) } \Rightarrow P_e \uparrow \text{ and } Q_e \uparrow$$

With supply fixed, a rise in demand ($D \rightarrow D_1$) raises both the equilibrium price and the equilibrium quantity.

Exercises 2.1-2.3

2.1 Define the term *demand*.

[2]

2.2 State two determinants that shift the demand curve.

[2]

2.3 State the effect on the demand for coffee of a rise in the price of tea (a substitute).[1]

Exercises 2.1-2.3

2.1 Define the term *demand*. [2]

2.1

- the quantity of a good that buyers are willing and able to buy at each price over a period of time (2 for a clear definition; 1 for a partial idea)

2.2 State two determinants that shift the demand curve. [2]

2.2

- any two of: income; price of a substitute; price of a complement; tastes/fashion; population; advertising (1 + 1)

2.3 State the effect on the demand for coffee of a rise in the price of tea (a substitute). [1]

2.3

- the demand for coffee rises (it shifts right) (1)

Exercises 3.1-3.2

3.1 A fall in the good's **own price** is shown on a demand diagram as a:

[1]

☐

A rightward shift of the demand curve

B leftward shift of the demand curve

C movement down along the demand curve

D shift of the supply curve

3.2 Using a demand diagram, explain how a rise in consumer income affects the demand for a normal good.

[6]

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3.1 C

- An own-price change is a movement along the demand curve

3.2 Using a demand diagram, explain how a rise in consumer income affects the demand for a normal good.

[6]

3.2

- [6] AO1 1 + **AO3 diagram up to 3** (labelled axes price/quantity, demand shifts right $D \rightarrow D_1$) + AO2/AO3 up to 2 – higher income raises demand for a normal good
- the curve shifts right
- at the same price, quantity demanded is higher (and price/quantity rise once supply is added)

Exercise 3.3

3.3 Explain two determinants that could shift the supply curve of wheat to the left. [6]

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3.3

- [6] For **each** of two determinants: AO1 1 + AO3 up to 2 – e.g. *higher input costs*:
dearer fertiliser raises production costs
- firms supply less at each price
- supply shifts left. *Bad weather*: a poor harvest cuts output
- less wheat supplied at each price
- supply shifts left. Maximum 3 each