

# 5.2 Changes in Factor Demand and Factor Supply

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Name: \_\_\_\_\_ Class: \_\_\_\_\_ Date: \_\_\_\_\_

Total: 9 marks

## Objective

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Build the skills to answer exam questions on **changes in factor demand and factor supply**.

**You must be able to:**

- identify the determinants that shift **factor demand** 要素需求, including the output price and worker **productivity**
- explain how the price of a related input shifts factor demand
- identify the determinants of **factor supply** 要素供给
- predict the effect of a shift on the equilibrium **wage** and quantity

## 1 Worked examples

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Study these first. Each one shows the method for a question type used later.

### ■ Factor demand shifters

Since demand for a factor is derived from its MRP, it rises when the **output price** rises or workers become more **productive**. A change in the price of a related input can also shift it.

### ■ Factor supply shifters

The **number of available workers**, and their willingness to work at each wage.

### ■ Equilibrium effects

More labour **demand** → higher wage and quantity. More labour **supply** → lower wage, higher quantity.

## 2 Practice

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2.1 State one determinant that shifts factor demand.

[1]

**2.2** State how an increase in worker productivity affects factor demand. [1]

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**2.3** State the effect of an increase in the number of available workers on the equilibrium wage. [2]

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### 3 Exam-style questions

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**3.1** Factor demand rises when the price of the good it helps make [1]

- **A** falls
  - **B** rises
  - **C** is zero
  - **D** is fixed by law
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**3.2** An increase in labour supply, other things equal, [1]

- **A** raises the wage
  - **B** lowers the wage
  - **C** raises MRP
  - **D** has no effect
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**3.3** The demand for a product rises sharply.

(a) State the effect on the MRP of the labour making it. [1]

(b) State the effect on the demand for that labour. [1]

(c) State the effect on the equilibrium wage. [1]

### 4 Go further

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- work through the **5.2 Changes in Factor Demand and Factor Supply** lesson on the **Learn** page;
  - read the **Factor Markets** section of the AP Microeconomics handout on the **Know** page.

## Solutions

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**2.1** any one of: the output price, worker productivity, the price of a related input.

**2.2** it increases factor demand (higher MRP).

**2.3** the wage falls and the quantity of labour rises.

**3.1 B.**

**3.2 B.**

**3.3** (a) it rises. (b) labour demand rises. (c) the equilibrium wage rises.