

01 Demand & Supply

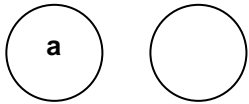
Microeconomics Year 1

- **Market Solutions/Success (Capitalism Works!)**
 - Demand, Supply, Elasticity and Price Equilibrium
 - Changes in equilibrium and reallocation of resources
 - Role of prices, competition and concepts of efficiency (allocative and productive)
- **Market Failure (Capitalism fails!)**
 - MF#1: Monopoly (lack of competition)
 - MF#2: Externalities (production and consumption)
 - MF#3: Merit and Demerit Goods
 - MF#4: Pure and Quasi Public Goods (Missing Markets)
 - MF#5: Immobility of Labour (Market Imperfections)
 - MF#6: Poverty and Inequality
- **Government Intervention/Success and Failure (Can the Government sort it out?)**
 - Intervention: Taxation, Subsidies, Regulation, Govt. Provision and Persuasion
 - Failure: Unintended consequences, political conflicts, regulatory capture, administrative errors

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graph TD; A[BASIC ECONOMIC PROBLEM] -- SOCIALISM --> B[GOVERNMENT INTERVENTION]; A -- CAPITALISM --> C[FREE MARKETS (or MARKET SUCCESS)]; B --> D[GOVERNMENT FAILURE]; C --> E[MARKET FAILURE];
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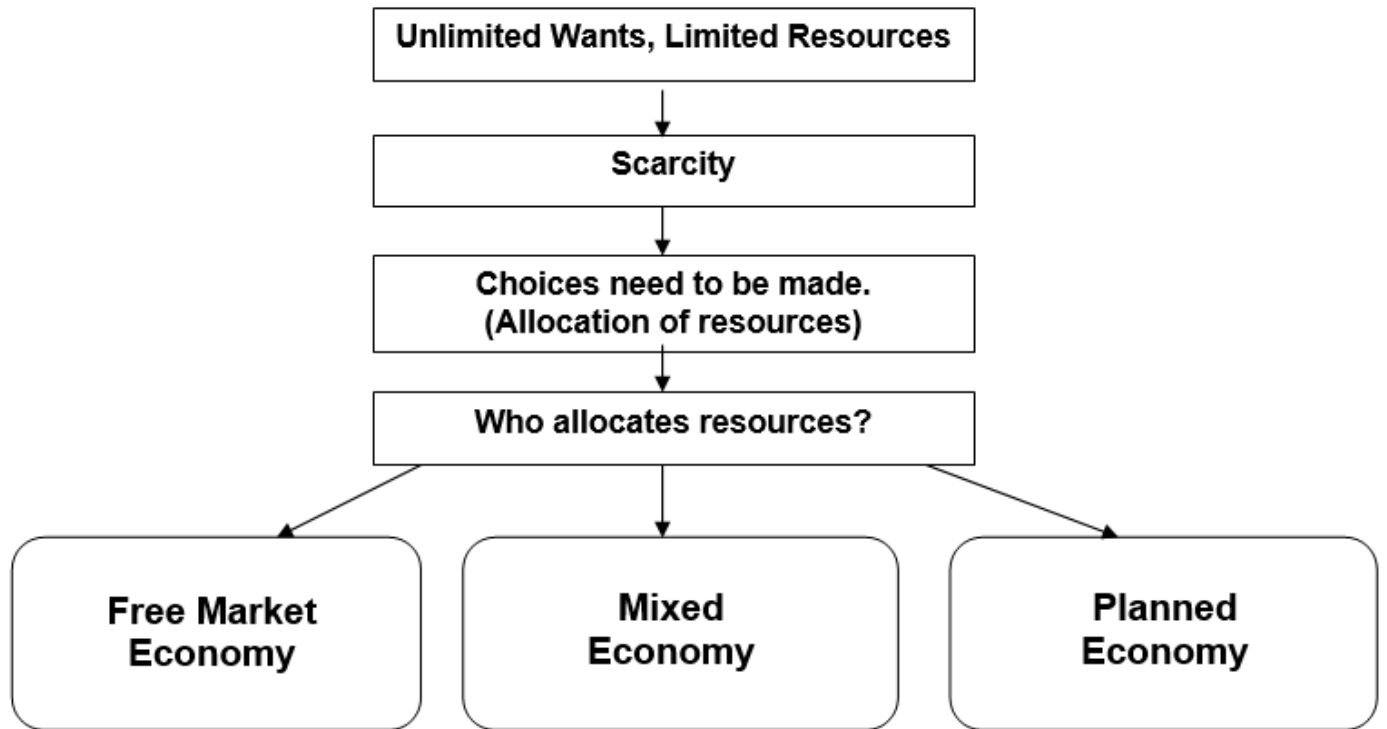
The diagram is a flowchart starting with 'BASIC ECONOMIC PROBLEM' at the top. Two arrows branch out: a red arrow labeled 'SOCIALISM' points to 'GOVERNMENT INTERVENTION', and a blue arrow labeled 'CAPITALISM' points to 'FREE MARKETS (or MARKET SUCCESS)'. From 'GOVERNMENT INTERVENTION', an arrow points down to 'GOVERNMENT FAILURE'. From 'FREE MARKETS (or MARKET SUCCESS)', an arrow points down to 'MARKET FAILURE'. A vertical dashed red line separates the two paths.

- a) Types of Economies (Market, Command and Mixed)
- b) Demand
- c) Supply
- d) Equilibrium in Markets
- e) Inter-Relationships Between Markets
- f) The Price Mechanism (Ration, Incentive, Signal)



Types of Economies

As a result of the economic problem (summarised below), we need to make choices about the allocation of resources (what to produce, how much to produce, who to produce for). We are now going to study the way different types of economies make these decisions.



Definitions of types of economies

Free Market Economy	Where scarce resources are allocated entirely by the price mechanism (i.e. demand & supply)
Mixed Economy	Where scarce resources are allocated partly by the price mechanism (i.e. consumers & producers or demand & supply) and partly by the Government
Planned Economy	Where scarce resources are allocated entirely by the Government

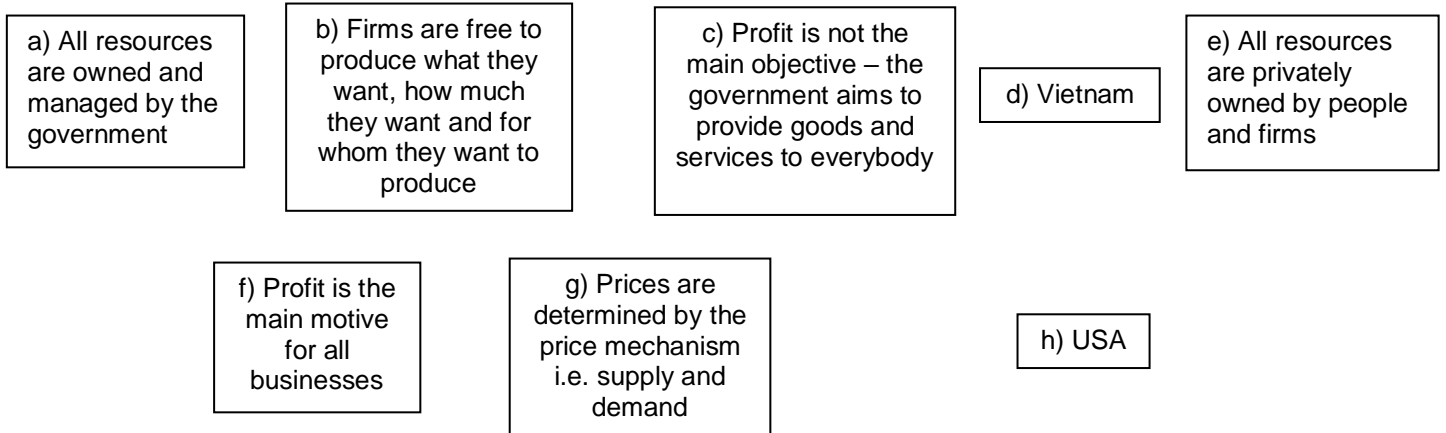
Activity 1: What type of economy exists in the UK? Use examples to explain your answer

Activity 2: Give 3 examples of goods/services produced by the private sector and 3 examples of goods/services produced by the public sector

Private Sector	Public Sector

Extension: Which goods/services are provided by private and public sectors? Is this the same for all countries? Write your answer on page 4.

Activity 3: Assume that there are only free market and planned economies. Match the examples to the correct economic system below



Notes Page

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Advantages and Disadvantages of Market & Command Economies

There is a spectrum of economies ranging from fully planned to free market. In reality most economies are somewhere in the middle of the spectrum (e.g. UK) as an extreme market or planned economies have serious problems. Mixed economies are hopefully “the best of both worlds”.



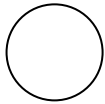
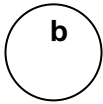
Advantages of Free Markets	Disadvantages of Free Markets
<p>+ Competition & Efficiency: in free markets firms compete for profits (& survival) and therefore should strive to increase efficiency.</p> <p>+ Consumer Choice: also in order to survive and make profits businesses must match their production to what consumers want to buy. There should also be more firms competing, offering different goods & services which will aid consumer choice.</p> <p>+ Incentives & Economic Growth: in a free market there is no (or low) income or corporation tax. This gives workers a greater incentive to work and businesses more incentive to make profits. These incentives should help fuel higher economic growth.</p>	<p>- Inequality: as there is no Government there will be no state provision of benefits or public services. Therefore those on low incomes, the underprivileged & the disabled will struggle to survive and could remain in poverty.</p> <p>- Market failure: there are other market failures that occur when free markets don't allocated resources efficiently:</p> <p>e.g. dominant firms may charge high prices e.g. some goods may be under-provided, such as healthcare & education e.g. some goods may be over-provided, such as cigarettes, alcohol & CO₂</p>

The Need for Mixed Economies

In essence a mixed economy is trying to gain the best of both worlds i.e. free market discipline coupled with the drive for equality of a planned economy. In reality, all economies are mixed but they will be nearer to one extreme than the other depending on the value judgements made by the leaders of that country.

Economics in Action!

In pairs, argue the case for adoption of a free market or planned economy. Prepare and summarise your argument below



Demand

What is Demand?

Demand	
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It is important to remember that in economics we are concerned with **effective demand**. This is the quantity of a good or service that consumers would be willing and able to purchase at any given price. We are not interested in how much consumers would buy if they had unlimited resources (desire); of course we know that consumers do have limited resources, and so in economics, when we refer to 'demand' we are always talking about 'effective demand', i.e. wants/desires backed up by purchasing power.

It is also worth noting that **individual demand** is the demand of one person whereas **market demand** is the demand that comes from *everyone* in a particular market.

Demand and Utility

Utility is the satisfaction people get from *consuming* (using) a good or a service. Utility varies from person to person. Some people get more satisfaction from eating chips than others. Even the same person can gain greater satisfaction by eating chips when hungry than when he has lost his appetite.

'Utility' means 'benefit'. Rational consumers demand goods and services in order to maximise their personal utility. They will be guided by price signals from the market in making decisions about how to allocate their scarce resources between different goods and services in order to maximise their utility.

Activity 1: Explain the concept of 'diminishing marginal utility'.

Draw a diagram to show a demand curve and use an example to help you

Diagram

Explanation

Demand for DVDs: an example of a demand curve

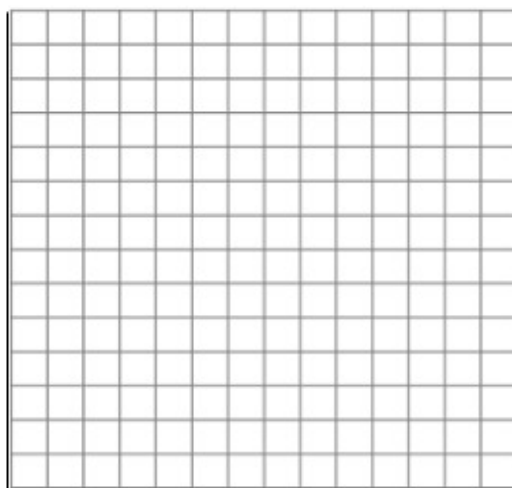
A demand schedule below tells us how many DVDs would be demanded by consumers in the UK at each given price over the course of the year, 2016.

The demand schedule for DVDs for 2016

Price of DVDs (£)	Quantity demanded in 2016 (millions)
2	200
4	180
6	160
8	140
10	120
12	100
14	80
16	60
18	40
20	20



Activity 2: Plot the demand curve for DVDs in 2016



Top Tips:

- Price (P) is always on the vertical axis and Quantity (Q) is always on the horizontal axis.
- The demand curve always slopes downwards from left to right. This is because of the **inverse (negative) relationship** between quantity demanded and price, embodied in the **law of demand**:
“There is normally an inverse (negative) relationship between price and quantity demanded, all other things being equal.”
- When isolating the relationship between 2 variables, here Qd and P, we use the phrase ‘*all other things being equal*’ to indicate that all other variables that may affect Qd are assumed to remain constant. Economists use the Latin phrase ‘**ceteribus paribus**’ to say ‘all other things being equal.’
- The slope of the demand curve tells us how Qd for a product changes in response to a change in P, and nothing else. Only a change in P can cause a movement along the demand curve. Such movements along the demand curve are called a contraction or extension in demand.

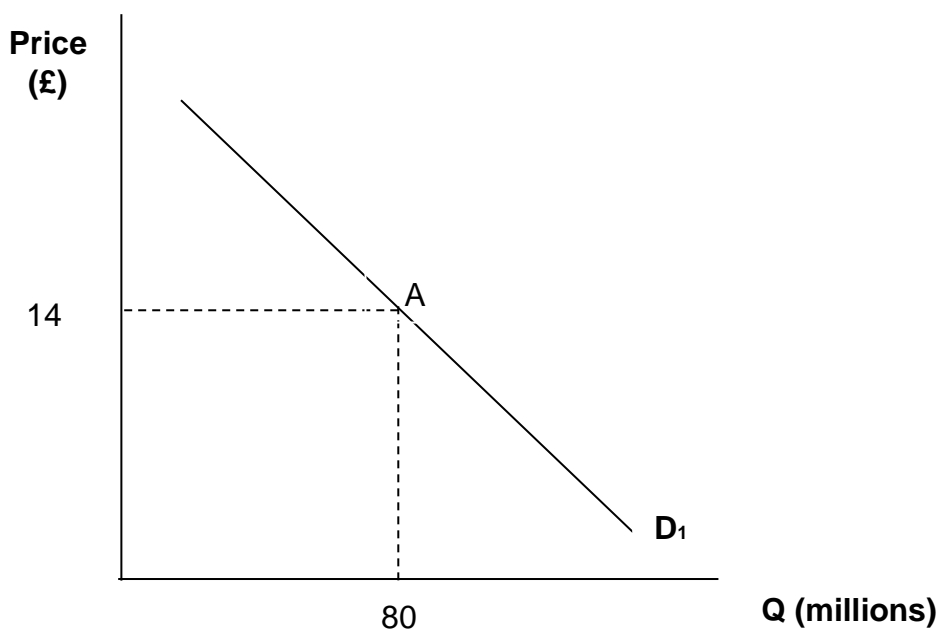
Movements along the demand curve

A change in price is the only factor that causes a movement along the demand curve!

Assume the current (average) price of cinema tickets in 2019 is £14. We can show what happens to demand when price rises and falls.

	Demand before	Demand now	
Falls to £10	80 million	120 million	This is called an extension in demand
Rises to £16	80 million	60 million	This is called a contraction in demand

Activity 3: Illustrate these changes on the demand curve below:



Ext: Use the space below to draw a flat demand curve – what is the effect of an increase in price on the level of Qd? What product would have a demand curve like this? Explain your answer.

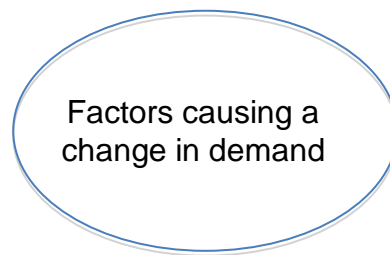


Explanation:

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Shifts in demand

➤ **Activity 4:** Produce a mind map to show the factors affecting demand (PASIFIC)



Shifts in demand for streaming services

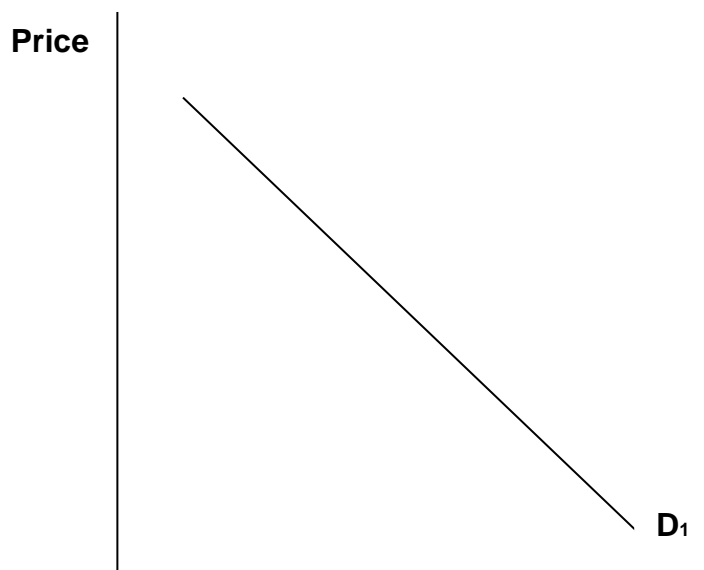
Amazon Prime and Netflix have become a popular form of home entertainment, almost exclusively replacing DVDs for watching films.

Activity 5:

a) Suggest the impact on **Streaming Services** of the following: increase or decrease?

Fall in price of cinema tickets	
Fall in price of audio only streaming services	
Change in consumer tastes towards Gaming	
Change in legislation declaring streaming services unsafe to use due to viruses contained on them	
Increased number of people owning TVs in China	
Increase in people's income in the UK	
Advertising of and Improved content on terrestrial TV	

b) Illustrate one of these changes on the demand curve below and EXPLAIN why demand has increased/decreased.



Q

Joint Demand, Composite Demand, Competitive Demand and Derived Demand

Joint Demand	When an increase in demand for good X, causes consumers to demand more of good Y. E.g. complements such as dishwasher tablets and dishwashers
Composite Demand	Where goods or services have more than one use, so that an increase in demand in one product leads to a fall in supply of the other E.g. land can be developed in many ways – residential, commercial, agricultural etc.
Derived Demand	When goods are demanded only because they are needed for the production of other goods E.g. car factory workers are only demanded in order to produce cars that are being demanded
Competitive Demand	When an increase in demand for one good reduces the demand for another good E.g. substitutes such as the BBC and Channel 4

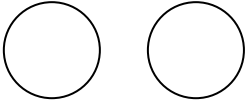


Point to Ponder



What goods (if any) are related to Streaming services in terms of:

- joint demand
- derived demand
- composite demand
- competitive demand



Demand Questions

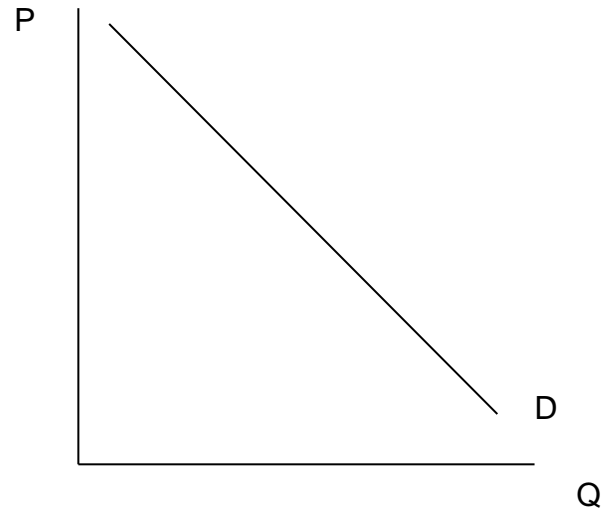
- You need to be able to apply the basic theory of demand to a variety of markets.
- For each question explain how the change will affect demand and illustrate it on the diagram given.

1.

Market: Wheat
Change: Rising real incomes in India

Explanation:

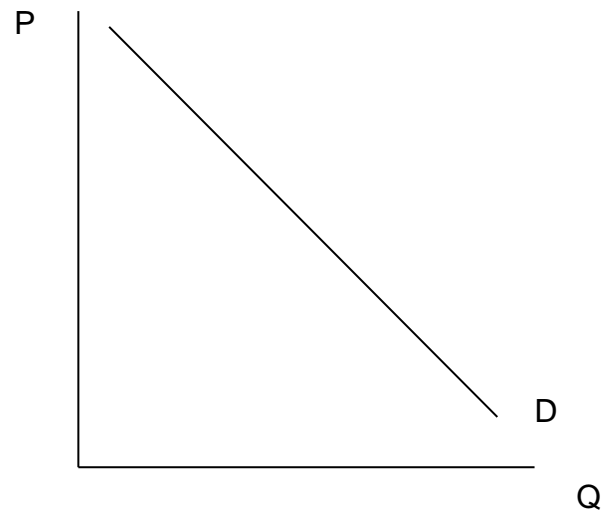
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2.

Market: Diamonds
Change: Decreased price of diamonds

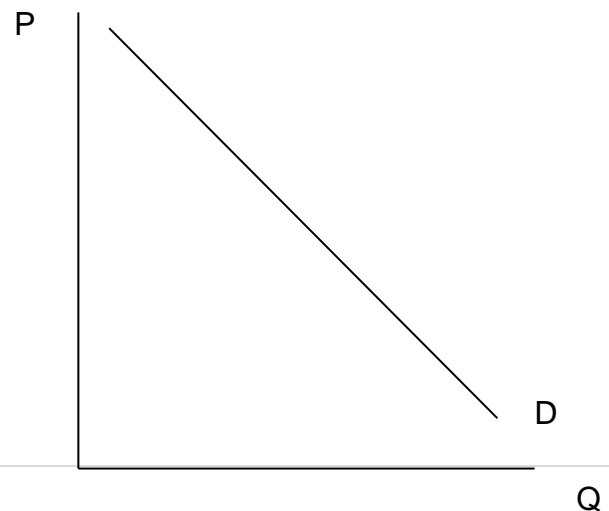
Explanation:



3.

Market: Owner-occupied housing
Change: Help to Buy Scheme

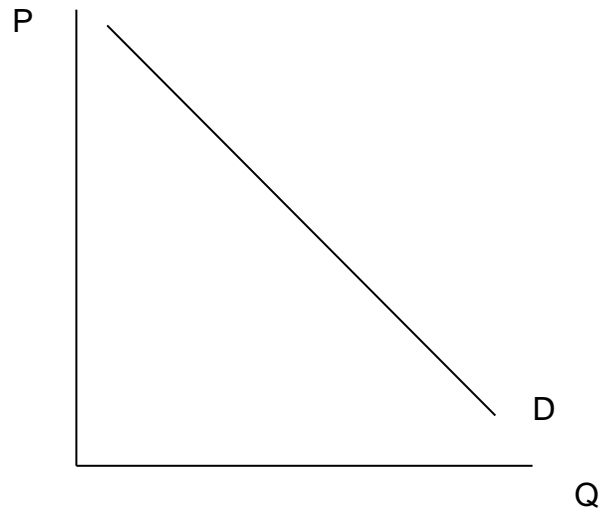
Explanation:



4.

Market: Labour Market (Builders)
Change: Decreased Demand for Housing

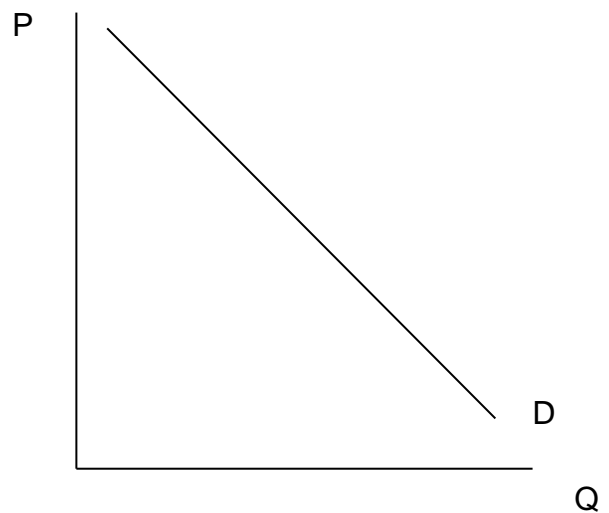
Explanation:



5.

Market: Cars
Change: Rising world population

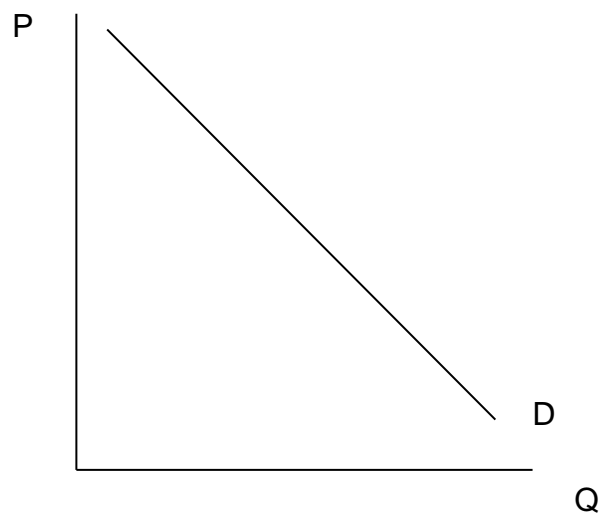
Explanation:



6.

Market: Coca-Cola
Change: Success of innocent smoothies fuelled by 5-a-day campaign

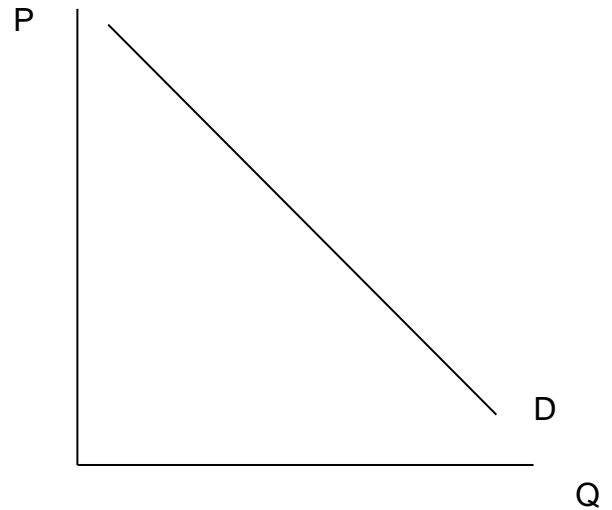
Explanation:



7.

Market: Supermarket own brands
Change: UK recession

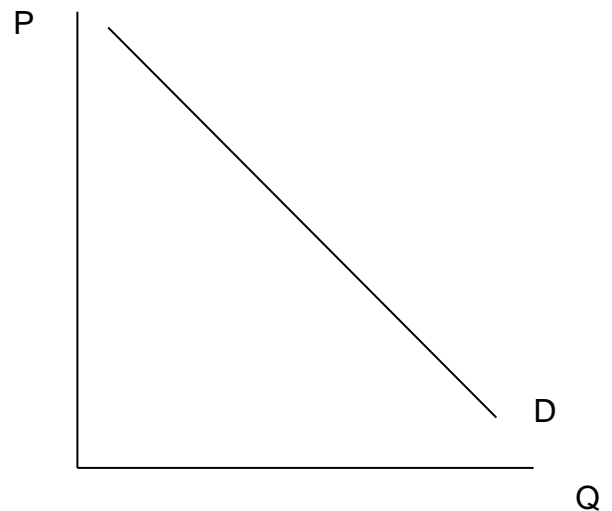
Explanation:



8.

Market: Nintendo Wi Game
Change: Falling price of PS3 Console

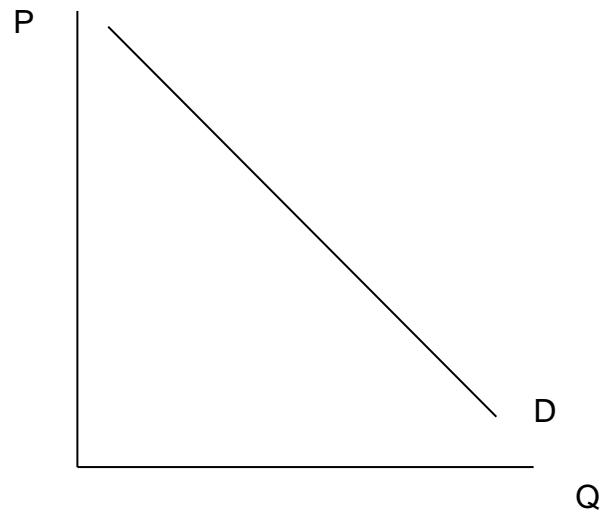
Explanation:



9.

Market: Shares for Tesco
Change: Profit warning issued by Tesco

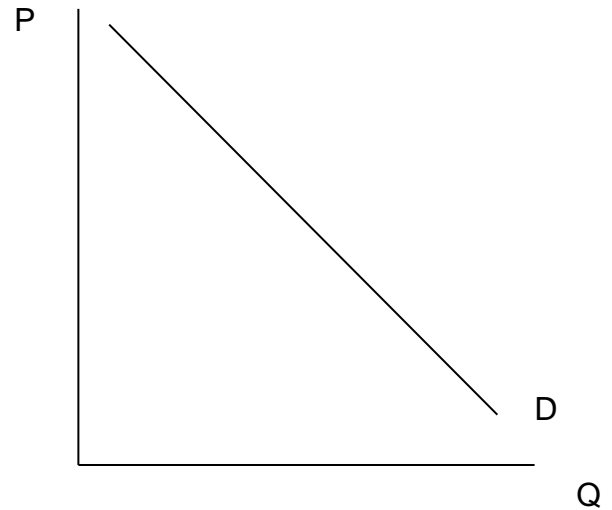
Explanation:



10.

Market: Steel
Change: Increased demand for cars

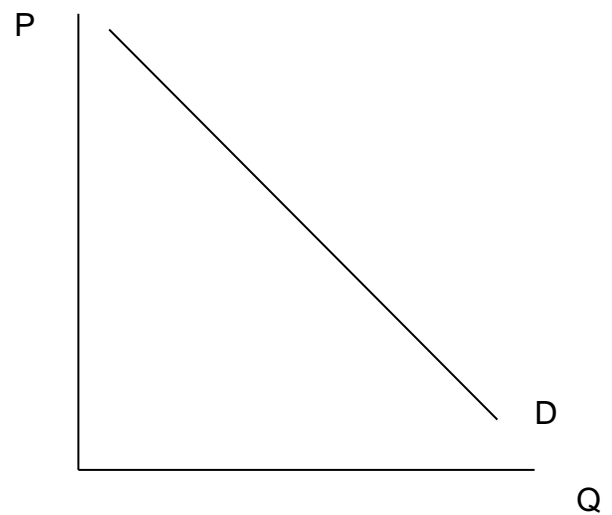
Explanation:



11.

Market: Child seats for cars
Change: Stricter car safety legislation

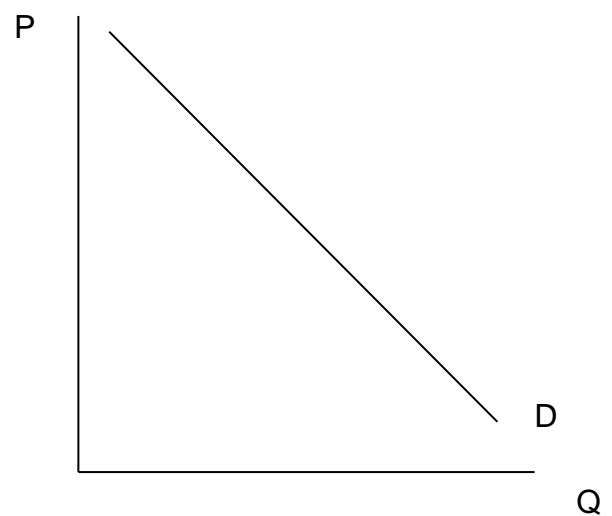
Explanation:



12.

Market: Oil
Change: Speculators believe the price will rise

Explanation:



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What is Supply?

Supply

Just as previously we constructed a demand curve which told us how much of a good consumers were willing and able to buy (i.e. demand) at any given price, we can also construct a supply schedule. As with demand, there is a distinction between **individual supply** and **market supply**.

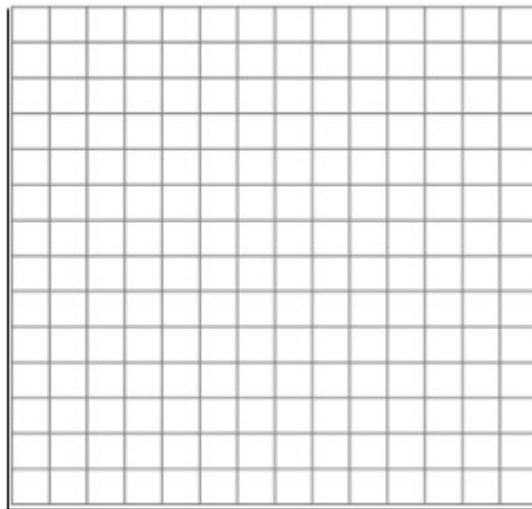
The Supply Curve for Wheat

SUPPLY SCHEDULE FOR WHEAT



Price of wheat/tonne (£)	Qs of wheat (tonne - millions)
10	2
20	4
30	6
40	8
50	10
60	12
70	14

Activity 1: Plot the supply curve for wheat



Top Tips:

- Again, price (P) always goes on the vertical axis, quantity supplied (Q) on the horizontal axis
- The slope of the supply curve tells us how Qs for a product changes in response to a change in P, and nothing else.
- Whilst the demand curve sloped downwards from left to right (negatively sloped) the supply curve slopes upwards from left to right (positively sloped).

Why is supply upward sloping?

Supply curves for most products slope upwards from left to right giving a positive relationship between the market price and quantity supplied. Two main reasons for this are as follows:

1. When the market price rises (for example following an increase in consumer demand), it becomes more profitable for businesses to increase their output.
2. Higher prices send signals to firms that they can increase their profits by satisfying demand in the market. When output rises, a firm's costs may rise, therefore a higher price is needed to justify the extra output and cover these extra costs of production

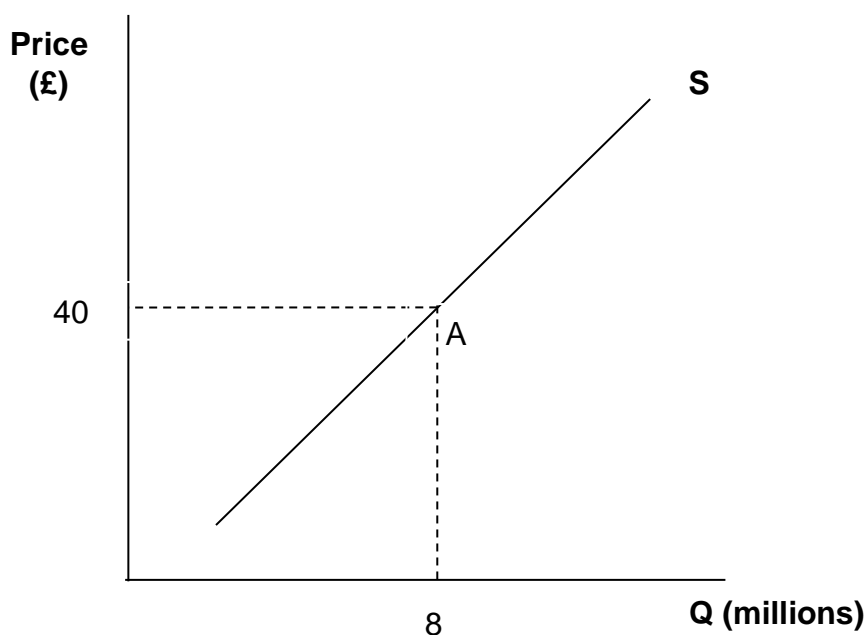
Movements along the supply curve

The only factor that causes a movement along the supply curve is price. Suppose the market price for wheat was £40 per tonne. What happens when price changes to...

	Supply before	Supply now	
Falls to £30	8 million	6 million	This is called a contraction in supply
Rises to £60	8 million	12 million	This is called an extension in supply

Activity 2: Illustrate these changes on the supply curve below:

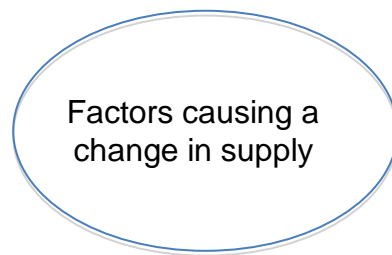
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Shifts in the supply curve

➤ **Activity 3:** Produce a mind map to show the factors affecting supply (PINTS W/C)



Shifts in the supply curve for wheat

Wheat is an agricultural product produced using mass production methods. It competes with other forms of basic foods such as maize, rice, corn etc.

Activity 4: a) Suggest what the effect on the supply of wheat will be if...

A rise in the cost of fertilisers	
There was an improvement in farming technology (e.g. GM)	
There was a poor growing season due to climate change	
A producer cartel of wheat farmers limits wheat production	
A sharp fall in the price of <i>wheat</i>	
A tax imposed on wheat production	
50 new farms set-up producing wheat	

Extension: Use the space below to draw a very steep supply curve – what is the effect of an increase in price on the level of Qs? What product would have a supply curve like this? Explain your answer.

Price

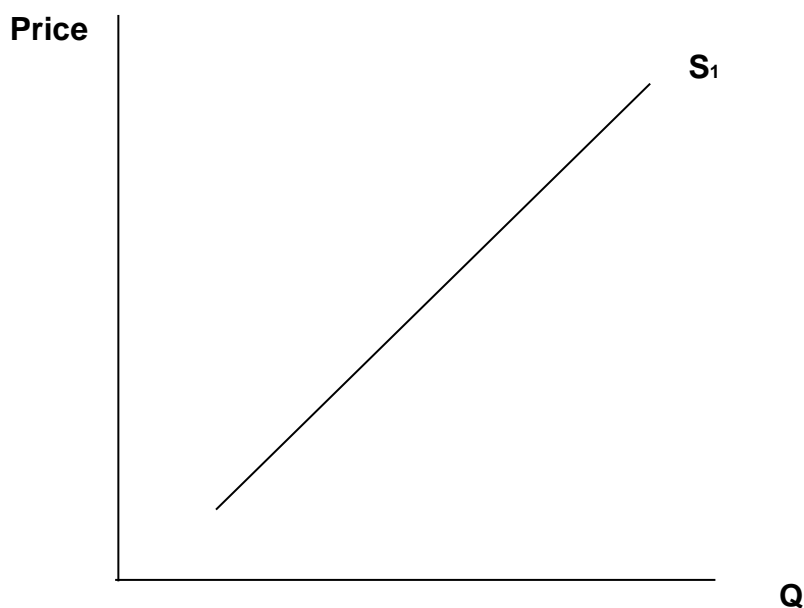


Explanation:

Q

Shifts in Supply

b) Using examples from the previous page, illustrate an increase and a decrease in supply:



Joint Supply and Competitive Supply

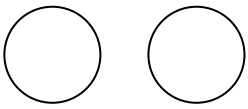
Joint Supply	When an increase of supply of good X, means more is automatically supplied of good Y E.g. beef and leather
Competitive Supply	When an increase in price of good X, leads to a contraction in supply of good Y (producers reallocate their production to good X) E.g. maize and barley

?

Point to Ponder

Can you think of any two goods in joint supply or in competitive supply?

?



Supply Questions

- You need to be able to apply the basic theory of supply to a variety of markets.

SECTION A: Suggest what could have caused the changes in these markets

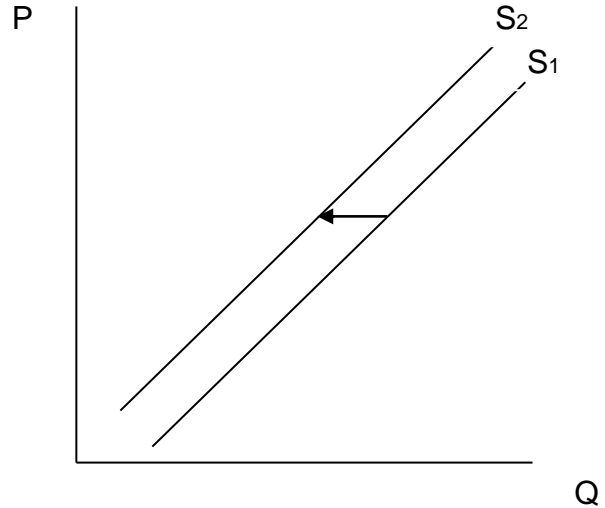
1.

Market: Gold

Change:

Explanation:

Decrease in supply



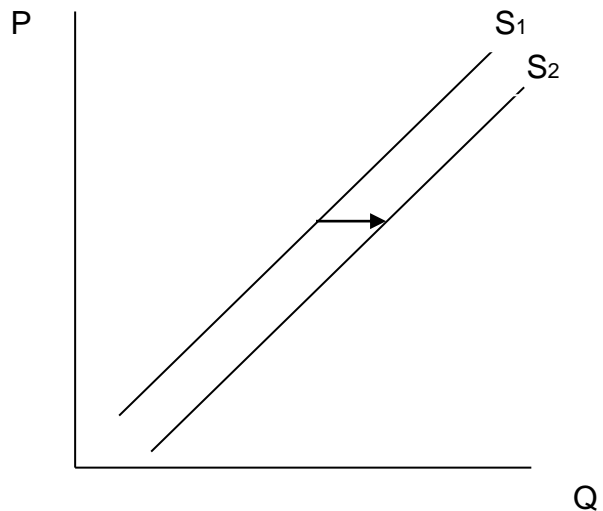
2.

Market: Computers

Change:

Explanation:

Increase in supply



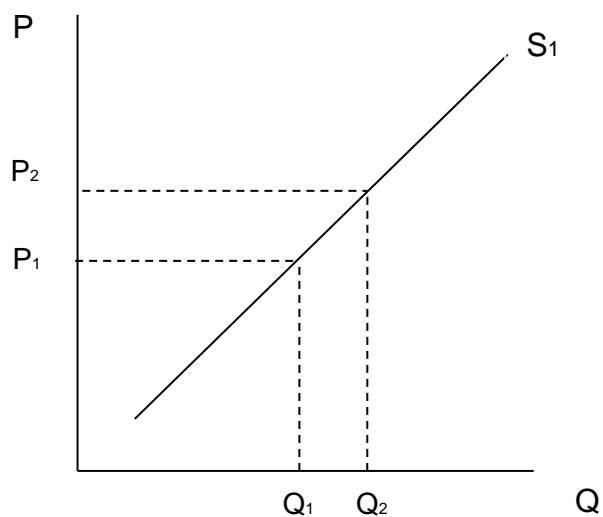
3.

Market: Petrol

Change:

Explanation:

Expansion in supply

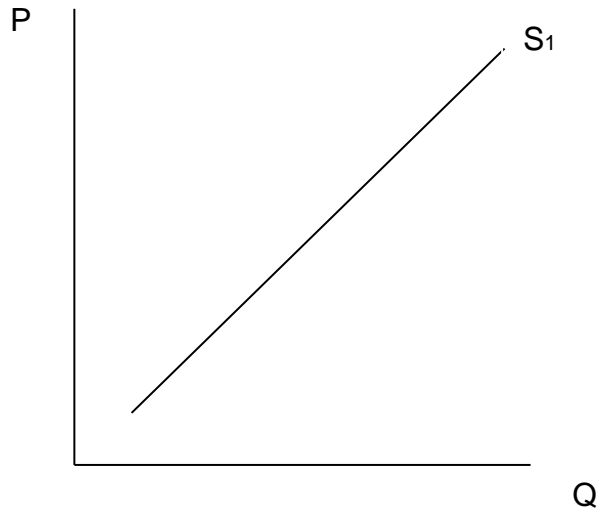


SECTION B: Illustrate and explain the effect of the following changes on supply in these markets

4.

Market: Wheat
Change: Poor Weather & Harvests of Wheat

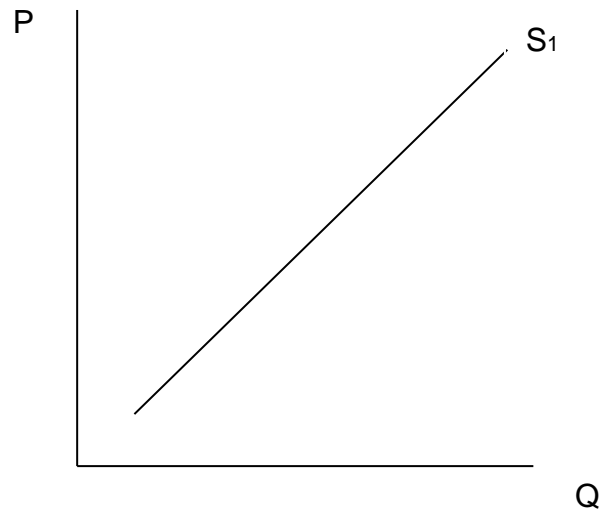
Explanation:



5.

Market: Diamonds
Change: Decreased price of diamonds
(due to lower demand)

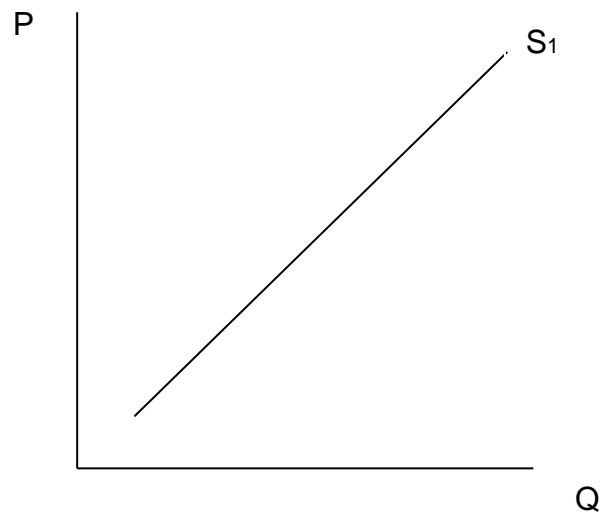
Explanation:



6.

Market: Owner-occupied housing
Change: Major home building programme

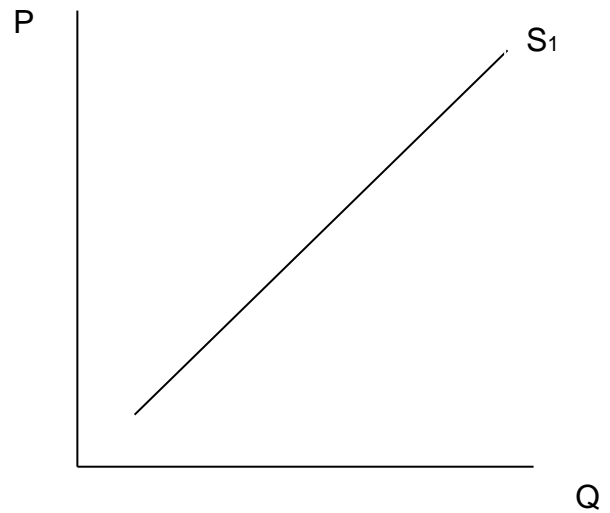
Explanation:



7.

Market: Alcohol
Change: Increased tax on alcohol

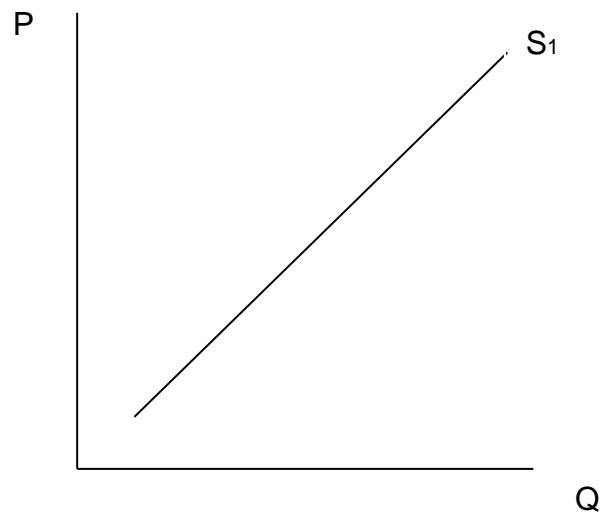
Explanation:



8.

Market: Hydrogen Cars
Change: Entry of new firms in the market due to new Government subsidies

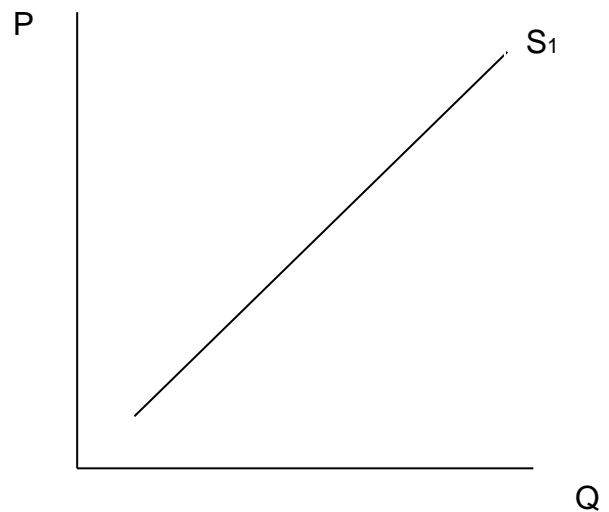
Explanation:



9.

Market: MP3 players
Change: Better production technology

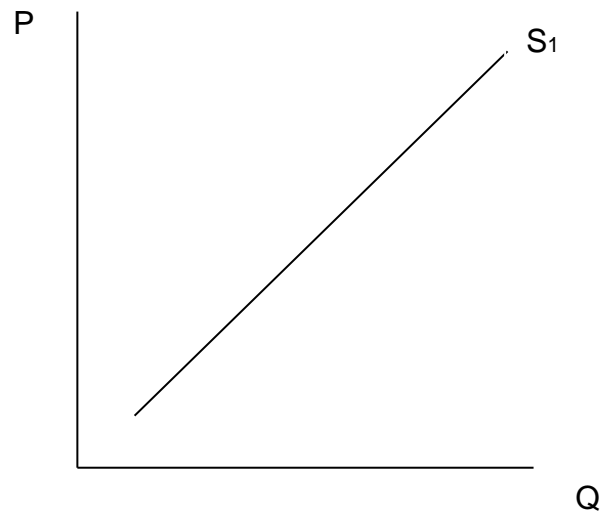
Explanation:



10.

Market: Leather
Change: Increased supply of cows

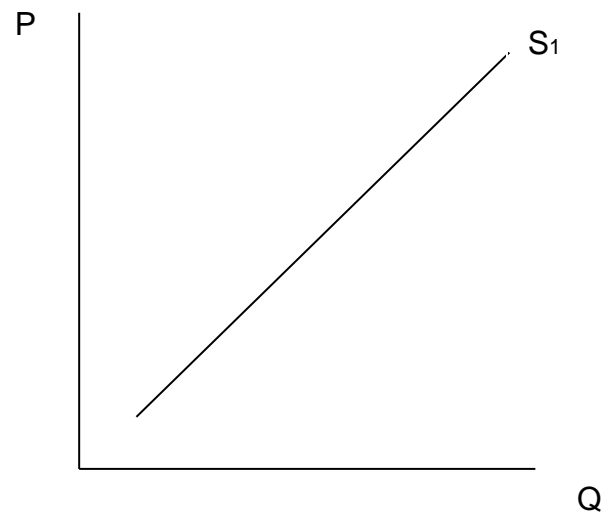
Explanation:



11.

Market: Oil
Change: Restrictions in supply by oil cartel

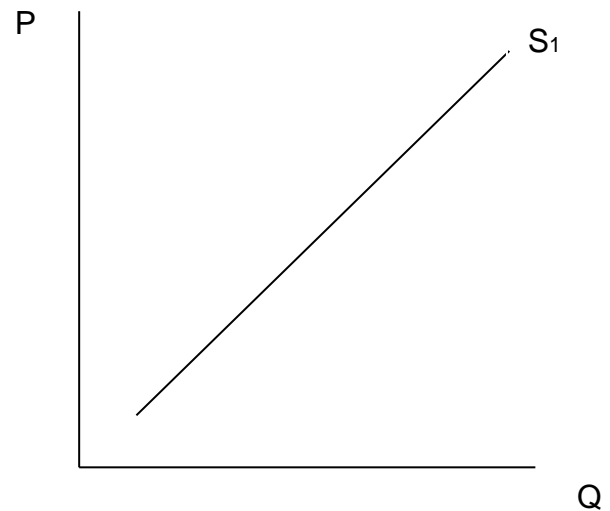
Explanation:



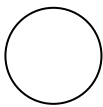
12.

Market: Shares for Tesco
Change: The Tesco share price falls due to poor results

Explanation:



d

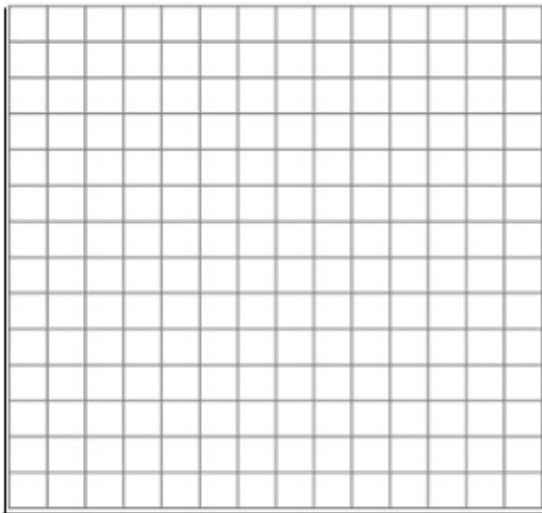


Demand & Supply: Equilibrium

Market Equilibrium

Having looked at demand and supply we can now determine what the equilibrium quantity and price will be in a market. The **equilibrium price** is called the **market clearing price**: the price at which there is neither excess demand nor excess supply. This is simply where **demand = supply**, as illustrated below:

Activity 1: Complete the table and plot the graph below



A football club has a stadium capacity of 8,000 seats and has estimated the level of demand at different ticket prices

Price	Quantity demanded	Quantity supplied
£20		
£18		
£16		
£14		
£12		

The equilibrium price in this situation is £ where quantity demanded and supplied = tickets

NB. We are assuming we are in a free market

As this is a free market it is producers and consumers who will determine the price and quantity. Indeed, in the example we are about to look at, **market forces** cause the price to move towards the equilibrium, with no need for Government intervention. This is an example of **market success!**

Activity 2: In the space below, write down what you think is meant by the term 'free market'. Can you give an example of a free market?

.....
.....
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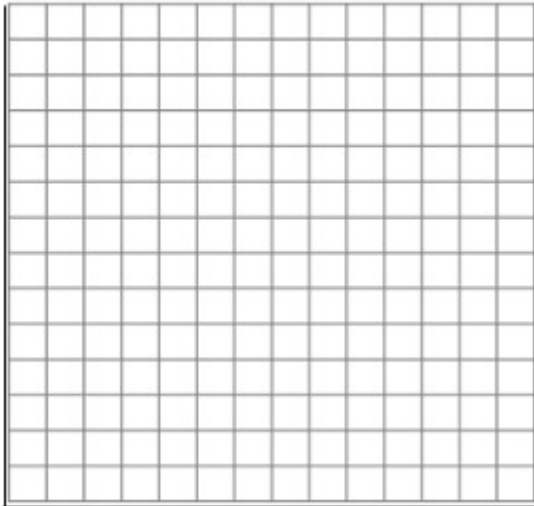
Activity 3: Why is this equilibrium? Market Stall Example...



- **DAY 1: Set price at 10p for apples for the day**

“During this day the apples flew off the shelf, we were sold out before lunchtime and people were coming back later in the day having heard of the great offer!”

A: Illustrate this outcome on a demand and supply diagram (excess demand). Explain your answer. Remember to label your axis and curves!

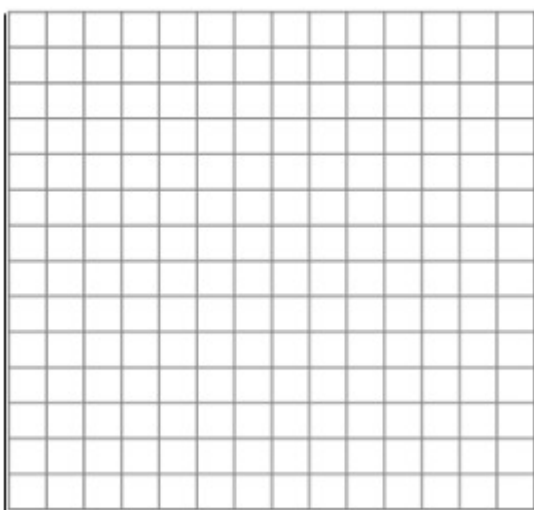


Explanation:

- **DAY 2: Set price at £1 for apples for the day**

“Well the next day I thought I should increase my price as there was so much demand and I set the price at £1 an apple. Maybe I was a little greedy but I didn’t expect to end up with a load of unsold fruit at the end of the day”

B: Illustrate this outcome on a demand and supply diagram (excess supply). Explain your answer

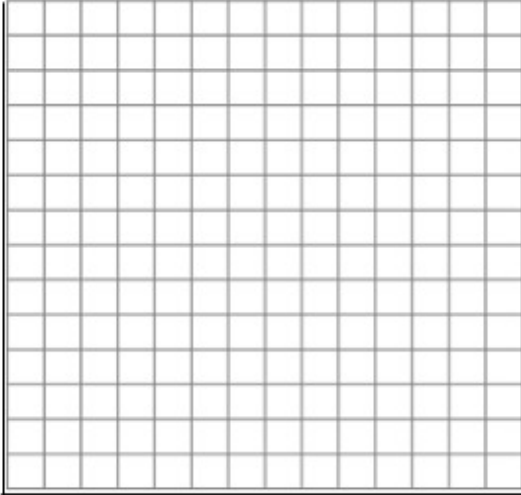


Explanation:

- DAY 3: Set price at 30p for apples for the day

“This was my best day of the three, 30p seemed an ideal price and I just sold my last apple at the end of the day.”

C: Illustrate the outcome on a demand and supply diagram:



Explanation:

D: Explain why 'demand = supply' is the equilibrium.

- a) Why would price fall if it were above equilibrium?
- b) Why would price rise if it were below equilibrium?



Complete your answer below using the terms **excess demand** and **excess supply**

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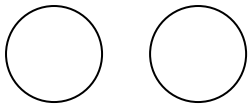
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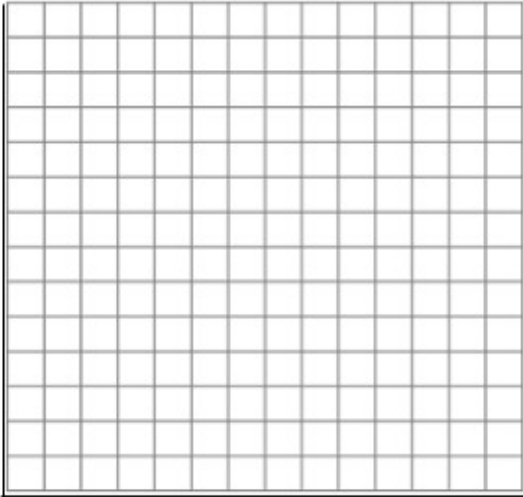
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Changes in D & S

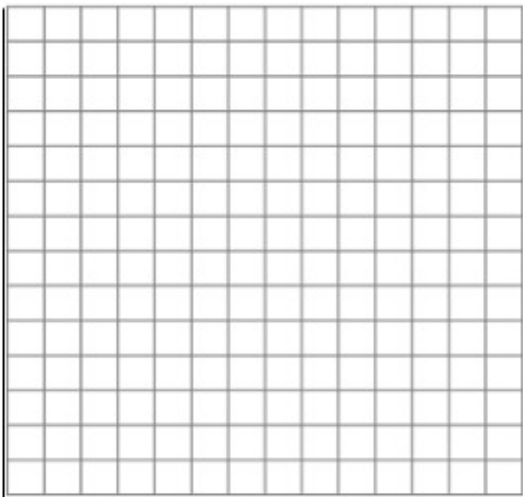
Activity 4: Illustrate the impact on the equilibrium price and quantity of apples. **ii)** Explain your answer. Remember to label your axis and curves!

a) A switch in consumer tastes for apples, as people try to become healthier & get 5-a-day



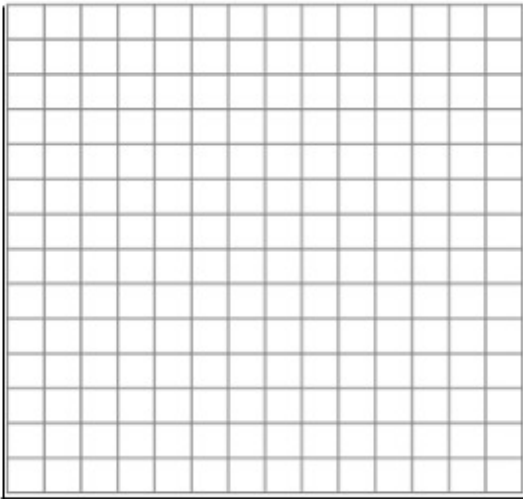
Explanation:

b) A fall in price of other fruits



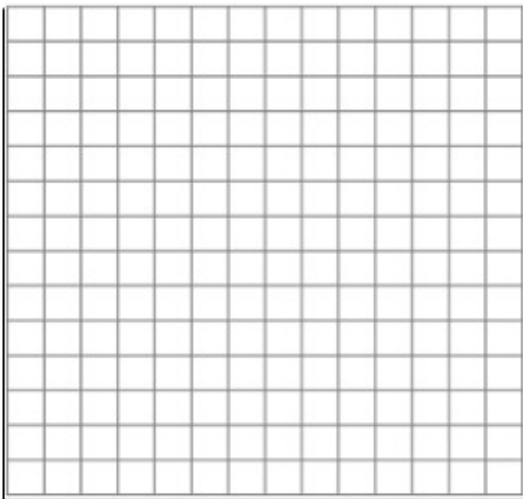
Explanation:

c) Entry of more apple producers into the market



Explanation:

d) A fall in the crop yield of apples

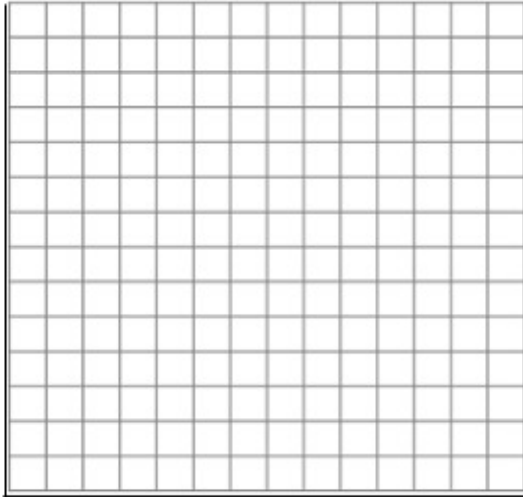


Explanation:

Extension: A Final Example

“Slight increase in productivity in diamond extraction and a significant switch in tastes towards diamonds caused by advertising”

Task: Illustrate this on the diagram below (use the hints at the bottom to help)!



Explanation:

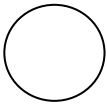
Evaluation (balance): the extent of the change in diamonds sold will depend on what?

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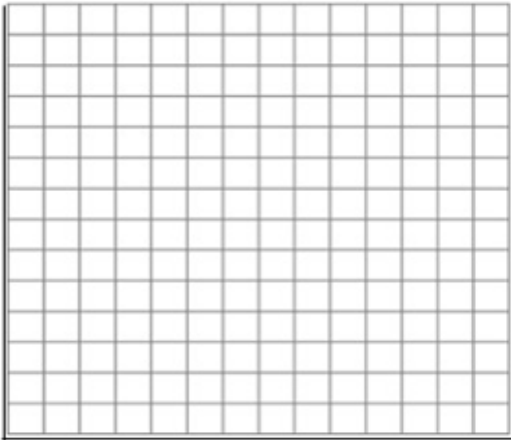
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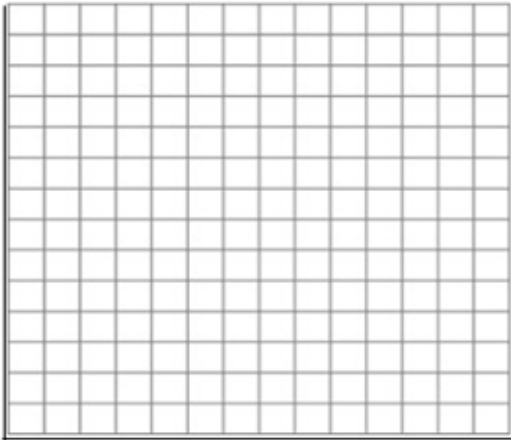
Inter-Relationships between Markets

A) **What would be the effect of a fall in the price of beef in the diagram below?**

Beef (fall in P and extension in D)



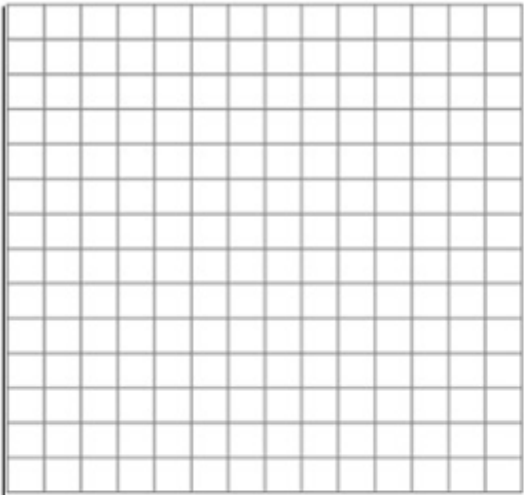
Market for Pork



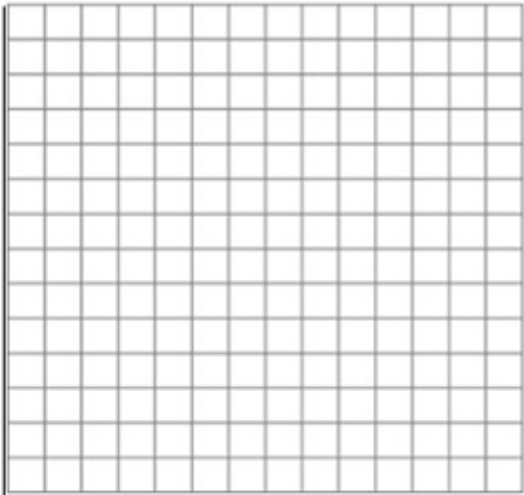
Explanation:

B) **What would be the effect of a rise in the price of dishwashers in the diagrams below?**

Dishwashers (rise in P, contraction in D)



Market for dishwasher tablets



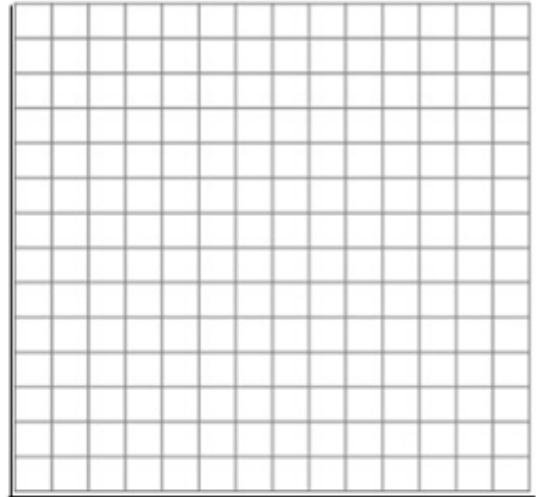
Explanation:

C) What would be the effect of a fall in demand for cars in the diagrams below?

Market for cars



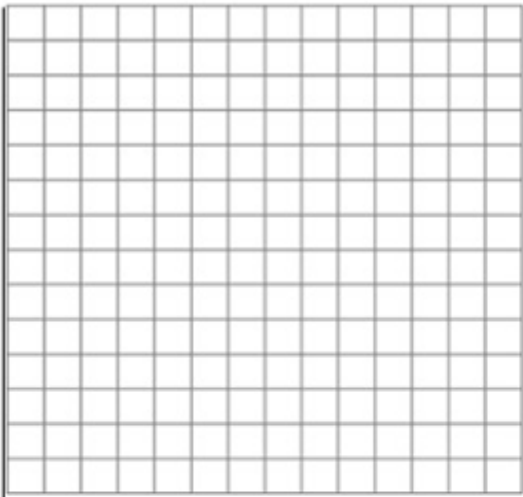
Market for steel



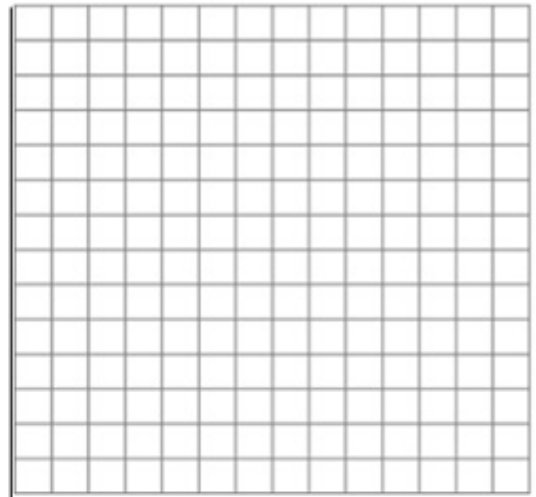
Explanation:

D) A fall in demand for cow's milk on the market for cheese?

Market for cow's milk



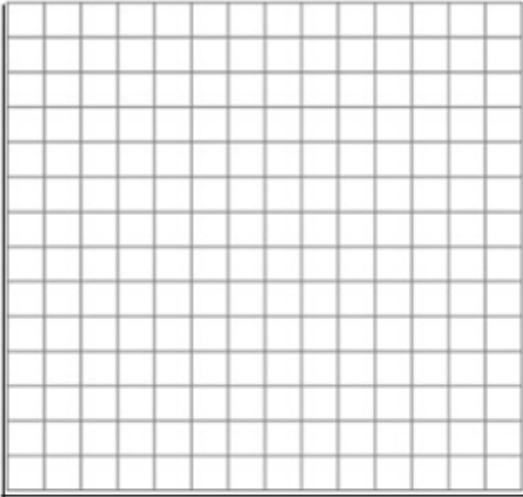
Market for cheese



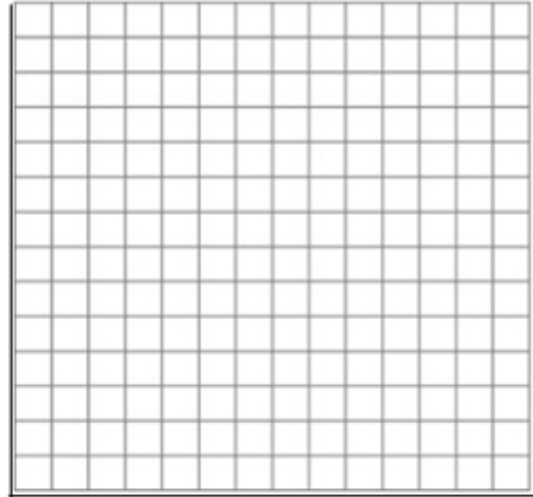
Explanation:

E) New Great British Bake Off series on BBC disappoints viewers

Market for BBC



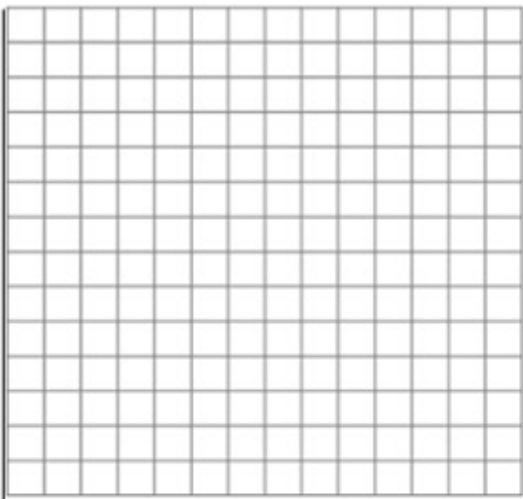
Market for ITV



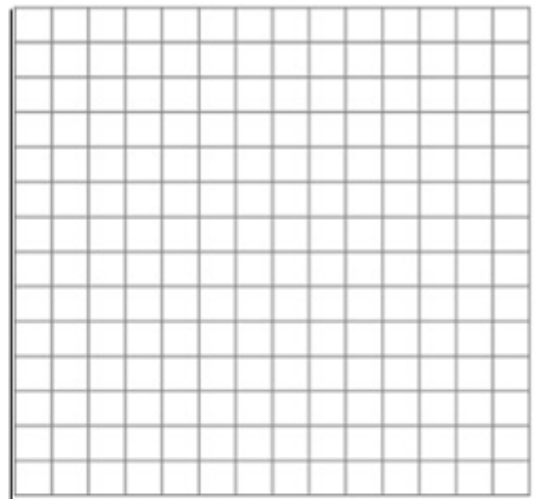
Explanation:

F) New studies show that eating lamb makes you live longer!

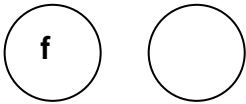
Market for lamb



Market for wool



Explanation:

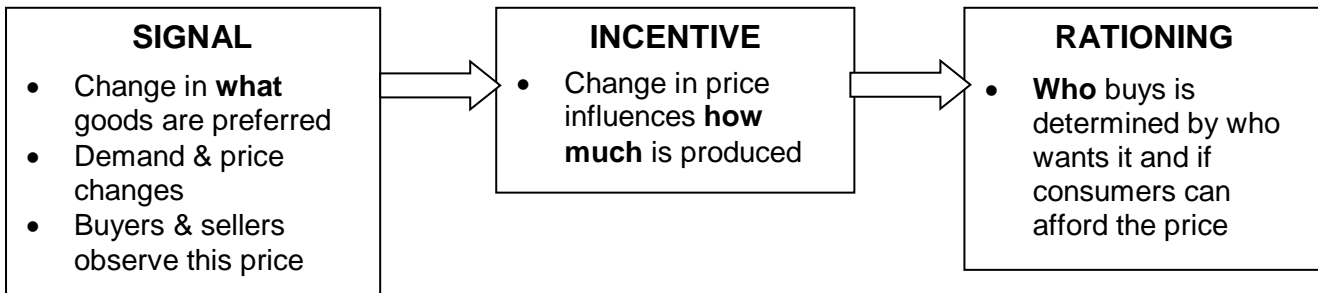


Functions of the Price Mechanism

The Price Mechanism	
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1. Signalling, Incentive and Rationing Functions

The price mechanism operates in the free market and has several functions. Prices in a free market can help solve the economic problem and allocate scarce resources by answering the questions: what, how and for whom.



a) The Signalling Function

Firstly, prices perform a **signalling function**. This means that market prices will adjust to demonstrate where resources are required, and where they are not i.e. **what** should be produced and consumed.

- **Signalling Consumer Demand:** if market prices are rising because of high and rising demand from consumers, this is a signal to suppliers to expand their production to meet the higher demand. Through the signalling function, consumers are able, through their expression of preferences, to send important information to producers about the changing nature of our needs and wants.
- **Signalling Availability to Consumers:** signalling also occurs with the supply curve. For example, if market prices fall due to advances in technology and higher supply (such as for digital cameras) then this is signalled to consumers with lower prices and they will respond by expanding their demand.

b) The Incentive Function

Producers and consumers in the examples above have responded to the **incentives** provided by a change in price. Here the market is decided **how much** should be produced and consumed in the free market i.e. allocating resources.

- **Incentives for producers:** suppliers have the incentive to produce more when demand is high as they will make more profit.
- **Incentives for consumers:** consumers have more incentive to consume goods after supply increases (e.g. due to higher productivity) as the price will be lower.

c) The Rationing Function

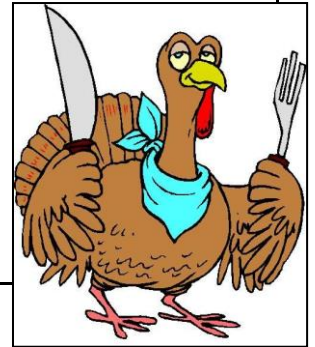
Prices can ration resources as well. The market here answered the question **for whom** the goods should be provided.

- **Rations Demand:** when demand increases there will be a shortage of a good or service, only those who are able and willing to pay the higher price will be able to afford them.
- **Rations Supply:** prices can also help ration the supply of a good. For example, when a non-renewable resource is running out, the supply will fall and price will rise causing demand to contract. Again, only those with a high willingness and ability to pay can obtain the good.

A large rectangular area with a red border, containing horizontal blue lines for writing. The lines are evenly spaced and cover the majority of the page's width and height, leaving a small margin at the top and bottom.

THE THREE FUNCTIONS OF PRICE

<p><u>What is the Economic problem?</u></p>	<p><u>How does the price mechanism “allocate” resources efficiently?)</u></p>
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Signalling, Rationing and Incentives

It is 23rd December, and the town is full of last minute shoppers for presents and the Christmas dinner. Last year's fashion for goose has this year been replaced by turkey following a TV Chefs "special". But they have left it rather late, demand was higher than usual and this has caused higher prices in the weeks since the TV show. To satisfy demand supermarkets and butchers were searching Europe!

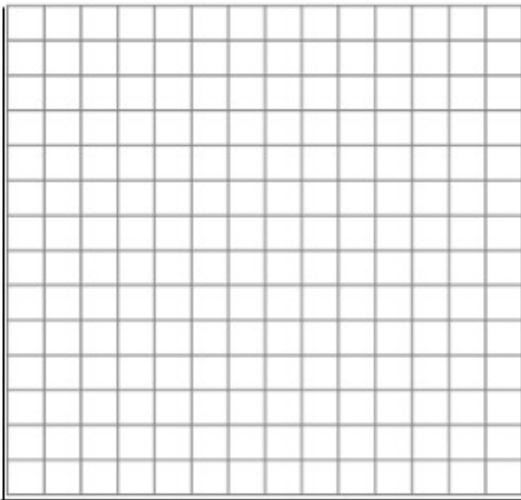
FUNCTION	VERBAL EXPLANATION OF FUNCTION
<p>IN THIS EXAMPLE, HOW DO PRICES ACT AS “SIGNALS”?</p>	
<p>IN THIS EXAMPLE, HOW DO PRICES ACT AS “INCENTIVES”?</p>	
<p>IN THIS EXAMPLE, HOW DO PRICES “RATION” GOODS</p>	
<p>DEMONSTRATE USING A DIAGRAM TO ILLUSTRATE HOW THESE PRICE FUNCTIONS (SIGNALLING, INCENTIVES AND RATIONING) WORK.</p>	

Extension 1: Example of the Price Mechanism: UK Broadband

In a free market goods and services are allocated by demand (consumers) and supply (producers). In this example we see how resources are reallocated when consumers increase their demand for broadband.

1. If there is an increase in consumer demand for Broadband Internet, then this will **signal** to producers that Broadband is a profitable market.
2. There is therefore an expansion in supply to take advantage of this **incentive**
3. The new higher price **rations** who buys Broadband.

Task: illustrate the functions of price on the diagram below:



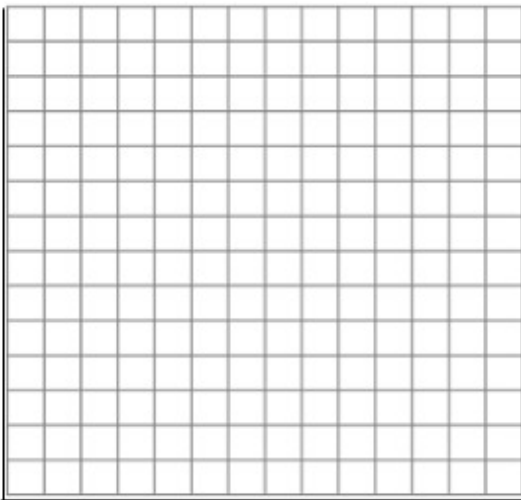
Explanation:

Extension 2: World Oil Supply

This time we are going to see the functions of the price mechanism responding to a change in supply i.e. world oil supplies depleting.

1. If there is a decrease in the world oil supply then the oil price will rise. This higher price will **signal** to consumers that consuming oil is less desirable due to the high cost.
2. There is therefore a contraction in demand as there is an **incentive** for consumers to switch to renewable energy sources or reduce oil consumption (e.g. switching to public transport).
3. The amount of oil used has been **rationed** and will help to stop the decline in oil supplies. Only those with higher incomes will be able to continue purchasing oil on a large scale.

Task: illustrate the functions of price on the diagram below:



Explanation:

Point to Ponder: The Power of the Price Mechanism

“What if [all] markets were perfectly competitive? ... Every product would be linked to every other product through an ultra-complex network of prices, so when something changes somewhere in the economy (there’s a frost in Brazil, or a craze for iPods in the US) everything else would change – maybe imperceptibly, maybe a lot – to adjust.

A frost in Brazil, for example, would damage the coffee crop and reduce the worldwide supply of coffee; this would increase the price coffee roasters have to pay to a level that discourages enough coffee drinking to offset the shortfall. Demand for alternative products, like tea, would rise a little, encouraging higher tea prices and extra supply of tea. Demand for complementary products like coffee creamer would fall a little. In Kenya, coffee farmers would enjoy bumper profits and would invest in improvements like aluminium roofing for their houses, the price of aluminium would rise and so some farmers would wait before buying. That means demand for bank accounts and safety deposit boxes would rise, although for unfortunate farmers in Brazil with their failed crops, the opposite may be happening.

The free market supercomputer processes the truth about demands and about costs, and gives people the incentive to respond in astonishingly intricate ways.”

Source: The Undercover Economist, Tim Harford

Tick list of tasks you must complete to finish this module:

Do you understand Demand & Supply fully?



Demand:

Can you define demand	<input type="checkbox"/>
Explain why the demand curve is downward sloping (3 reasons)	<input type="checkbox"/>
Can you recall the acronym of factors that shift the demand curve	<input type="checkbox"/>
Remember what causes a movement along the demand curve	<input type="checkbox"/>
Recall definitions for Joint, Composite, Derived and Competitive demand	<input type="checkbox"/>

Supply:

Can you define supply	<input type="checkbox"/>
Explain why the supply curve is upward sloping	<input type="checkbox"/>
Can you recall the acronym of factors that shift the supply curve	<input type="checkbox"/>
Remember what causes a movement along the supply curve	<input type="checkbox"/>
Recall definitions for Joint and Competitive supply	<input type="checkbox"/>

Equilibrium

Can you define Equilibrium and draw it on a diagram	<input type="checkbox"/>
Can you explain "Excess Demand" and draw it on a diagram	<input type="checkbox"/>
What effect does "Excess Demand" have on the price	<input type="checkbox"/>
Can you explain "Excess Supply" and draw it on a diagram	<input type="checkbox"/>
What effect does "Excess Supply" have on the price	<input type="checkbox"/>

Functions of the price mechanism:

Can you define the price mechanism	<input type="checkbox"/>
Explain the SIR functions of the price mechanism	<input type="checkbox"/>
Illustrate the SIR functions on a diagram	<input type="checkbox"/>

Help can be found in the following places ... ?:

Read pages and answered the "mastered this topic questions" on Godalming Online	<input type="checkbox"/>
Watched recommended videos from Godalming online	<input type="checkbox"/>
Attended a support session in rm 206 (Mon, Wed and Fri 1300)	<input type="checkbox"/>

Boost exam performance:

Complete the multiple choice questions on Godalming online	<input type="checkbox"/>
Complete 4 & 9 marker questions on Godalming online	<input type="checkbox"/>
Read economics related news, and find articles on Demand, Supply & Equilibrium	<input type="checkbox"/>