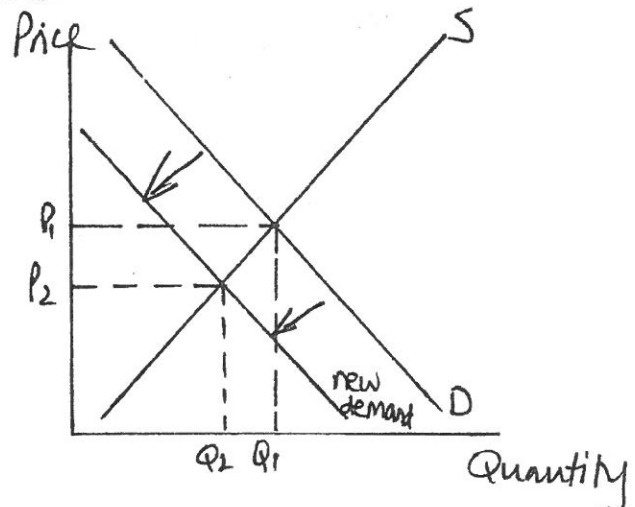
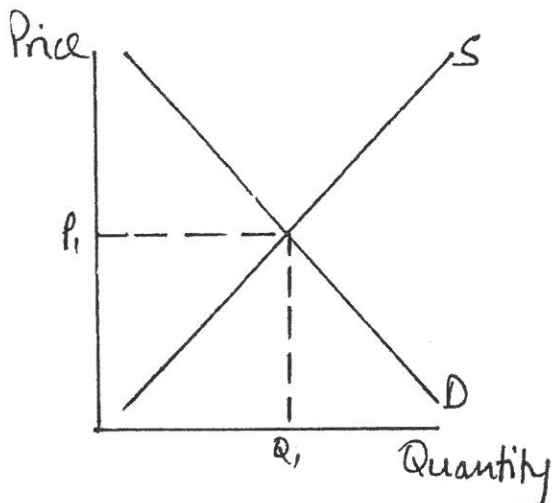


# How to get full marks on Demand and Supply questions in BS1

## Demand and Supply – The Diagram

1. Does the 'issue' in the question originate mainly from customers (Demand curve moves) or businesses (Supply curve moves)?
2. Shift the demand or supply curve. Remember LESS = LEFT, so MORE = RIGHT
3. Label the new demand or supply curve "New Demand" or "New Supply".
4. Put in arrows to show movement of the new curve.
5. Mark on the new equilibrium price and quantity with new dotted lines. Call the new price  $P_2$  and the new quantity demanded & supplied  $Q_2$ .



Example to show decreased demand shown above.

## Demand and Supply – The Explanation

1. What was the trigger in the question? E.g. an earthquake that damages vineyards, meaning less Chilean wine is produced
2. Has demand or supply been affected?
3. Which way did you move the curve?
4. What effect has this has on Price and Quantity demanded/supplied? i.e. has it increased or decreased?
5. If price remained at  $P_1$ , would demand exceed supply, or would supply exceed demand?

## Supply and Demand

### Factors affecting Demand:

#### **P.I.R.A.T.E**

**P**opulation

**I**ncome

**R**elated goods and services

**A**dvertising

**T**aste and fashions/preferences

**E**xpected price changes

### Factors affecting Supply:

#### **C.R.E.W.S**

**C**ost of inputs

**R**elated goods and services

**E**xpected price changes

**W**eather

**S**ubsidies and taxes

# Market conditions (including labour markets) continued

## Supply and demand \*

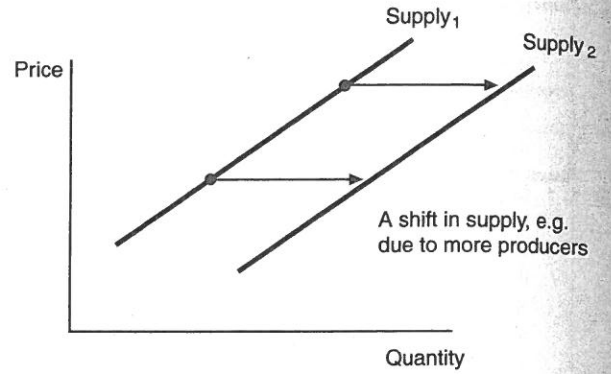
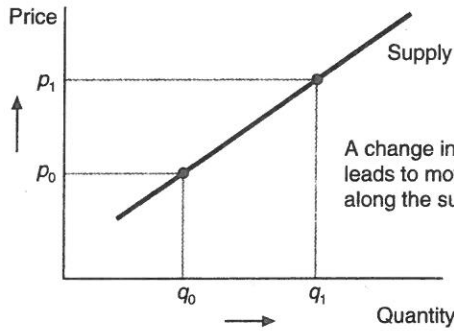
\* Supply and demand analysis is not needed for AQA.

A **supply curve** shows the quantity suppliers are willing and able to supply at each and every price, other things unchanged.

A **change in price** leads to a change in the quantity supplied; this is a movement along the supply curve.

The supply curve will shift when more or less is supplied at each and every price. This may be because:

- there are more or fewer firms producing
- technology has improved
- the government subsidises or taxes production

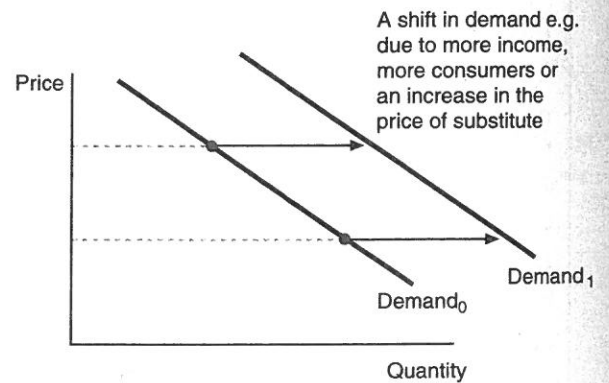
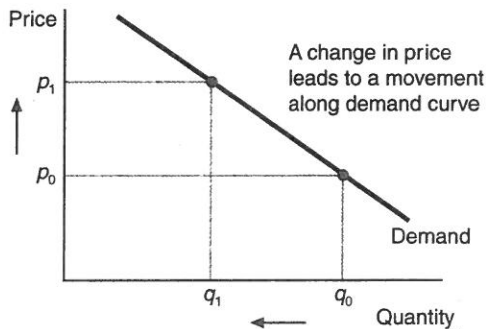


A **demand curve** shows the quantity demanded at each and every price, other things unchanged.

A **change in price** leads to a change in the quantity demanded and a movement along the demand curve.

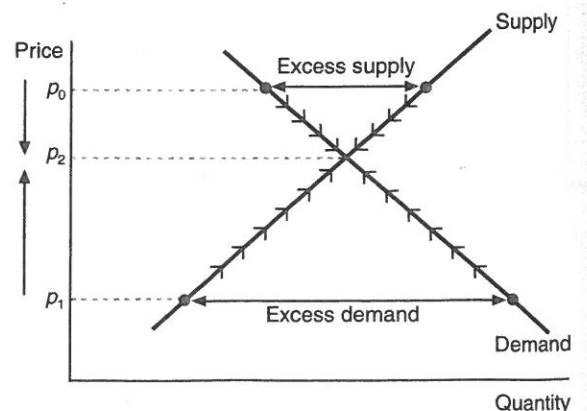
A **shift in demand** occurs when more or less is demanded at each and every price. The demand curve may shift if e.g.

- income changes
- the firm changes its promotion (e.g. it advertises more)
- competitors change their marketing actions (e.g. they lower their prices or advertise their products more)
- the number of consumers in the market changes



## Equilibrium

In a free market the price adjusts to bring about equilibrium, i.e. quantity supplied equals quantity demanded.



If there is too much demand (excess demand) the price will fall. This will decrease the quantity supplied and increase the quantity demanded until equilibrium is reached.

If there is too little demand (excess supply) the price will rise. This will increase the quantity supplied and decrease the quantity demanded until equilibrium is reached.

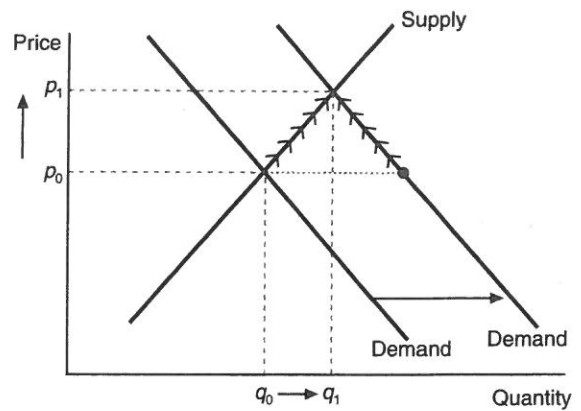
Imagine equilibrium is at  $P_0Q_0$  and demand increases (perhaps because income has increased or there are more buyers in the market). Demand shifts right. At the old price there is now excess demand. The price increases to  $P_1$  and a new equilibrium is established at  $P_1Q_1$ .

The price acts as:

- a rationing device (increasing to ration off demand if necessary)
- a signal (increasing to attract in new producers if there is excess demand)
- an incentive (increasing to encourage existing producers to produce more if there is excess demand)

**Market aggregation:** the market demand is the sum of all the individual consumer demands (i.e. the market demand curve is the total demand of all consumers in the market at each and every price, other things unchanged).

\* Supply and demand analysis is not needed for AQA



**Derived demand:** demand depends on demand for something else, e.g. the demand for labour is a derived demand; people are demanded because the final good or service is demanded.

### Labour market: skills surpluses and shortages

The state of the labour market depends on supply and demand:

- demand depends on the demand for the final goods or services (it is a derived demand); e.g. demand for information technology specialists is high at present; demand for blacksmiths is low.
- supply depends on the training period, the wage rate, the skills required, the size of the labour market; e.g. supply of highly skilled footballers is limited; the supply of cleaning staff is higher.

If there is a **skills surplus** this means that demand for this skill is less than supply. This is likely to lead to:

- falling wages
- unemployment

If there is **skills shortage** this means that demand for particular skills is greater than the supply. This is likely to lead to:

- higher wages
- increased efforts by individual firms to attract staff, e.g. better reward packages, more fringe benefits
- retraining of existing staff
- greater efforts to retain staff
- attempts to seek new sources of labour, e.g. overseas, older staff, other industries
- in the long term supply might increase as more people are attracted into the industry and some switch from other industries

## 97. Supply and Demand

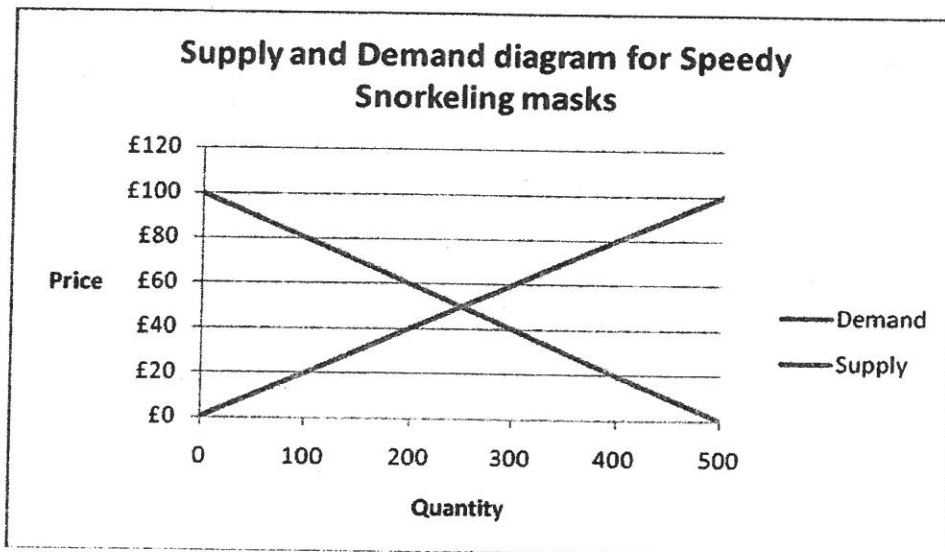
### 1. Missing words

\_\_\_\_\_ refers to the number of consumers who want a particular product or service and \_\_\_\_\_ refers to the number of firms who are willing to produce/provide the product or service. These two factors influence the \_\_\_\_\_ that can be charged for that product. The higher the price is for a product the \_\_\_\_\_ the demand will be as fewer people are able/willing to purchase the product at a higher price. However, the higher the price, the \_\_\_\_\_ the supply as \_\_\_\_\_ producers will be willing to provide the product. HINT: words from higher, more, lower, demand, supply, price

### 2. True or false?

- 2.1 The higher the price, the higher the level of supply
- 2.2 Where the demand curve cuts the supply curve is when the equilibrium or market price is
- 2.3 The lower the price level, the less the quantity demanded will be
- 2.4 If supply is higher than demand there will be a shortage of the product for consumers

### 3. Data response



3.1 How many units are demanded if the price is £80? \_\_\_\_\_

3.2 How many units are supplied if the price is £80? \_\_\_\_\_

3.3 Outline why the price charged would not be £80. \_\_\_\_\_

3.4 What is the equilibrium price for Speedy Snorkeling masks? \_\_\_\_\_

### 4. Explain why:

2.1 The demand curve is downward sloping \_\_\_\_\_

2.2 The supply curve is upward sloping \_\_\_\_\_

## 14. Changes in Supply and Demand

### 1. Missing words

Demand refers to the number of consumers who want a particular product or service and supply refers to the number of firms who are willing to produce/provide the product or service. These two factors will influence the price that can be charged for that product. The higher the price is for a product the \_\_\_\_\_ the demand will be – therefore there is an \_\_\_\_\_ relationship between price and demand.

However, the higher the price, the \_\_\_\_\_ the supply as \_\_\_\_\_ producers will be willing to provide the product as there are higher profits to be made.

**HINT:** words from higher, more, lower, inverse

### 2. Apart from price, what else affects demand?

Which of these factors will affect the demand for Cadbury products? Mark with an up arrow to indicate an increase in demand and a down arrow to indicate a decrease. If you don't think demand will be affected, mark with a cross.

2.1 An increase in Cadbury's advertising spending.

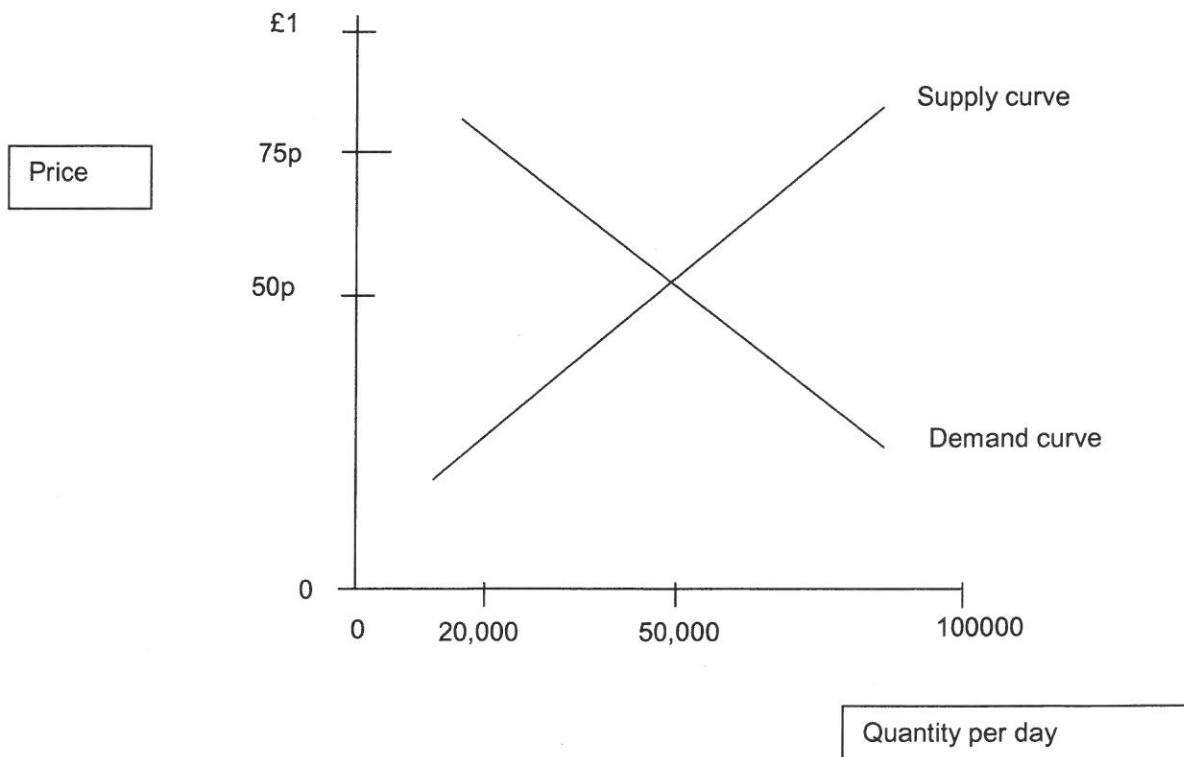
2.2 An increase in competition in the market

2.3 Negative publicity about Cadbury

2.4 A 10% increase in annual profit margins

2.5 An increase in brand awareness following a celebrity endorsement

### 3. Supply and Demand Diagram for the Carrot Market



3.1 What is the market price for carrots? \_\_\_\_\_

3.2 What would the demand be if the price was set at £0.75p? \_\_\_\_\_

3.3 Explain why suppliers would not be able to hold the price at 75p \_\_\_\_\_

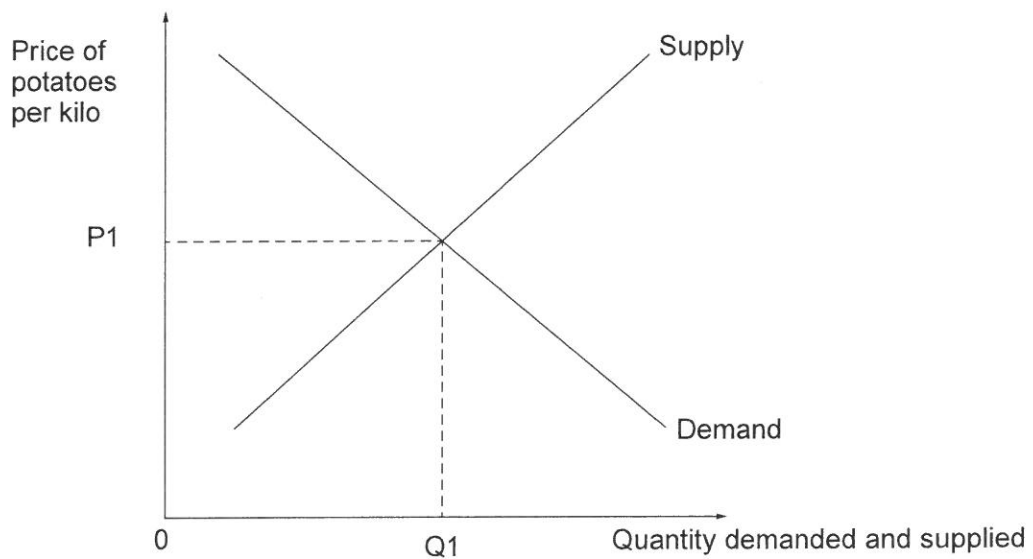
**2. IT'S OFFICIAL – 2012 WAS THE SECOND WETTEST YEAR IN OVER A CENTURY OF UK WEATHER RECORDS.**

So which businesses and industries lost out most in 2012, and were there any winners? Farmers suffered badly last year, as the constant rain severely stunted many crops. Wheat yields were at their lowest since the 1980s, with production down about 15%, while farmers grew about 4.5 million tonnes of potatoes, one million fewer than the average, according to Phil Bicknell, chief economist at the National Farmers' Union.

As for sales of gardening products, "gardening was a complete washout", says Patrick O'Brien, retail specialist at consultancy Verdict Research. But it was not all bad news – sales of slug pellets and weed killer did very well, as slugs and weeds both thrived in the wet weather.

B&Q had a bad spring and summer. Its sales fell 6% and shopper numbers were down 20%, as not only would-be gardeners, but also outdoor DIY enthusiasts and barbeque food lovers, were put off by the terrible weather. In contrast, Dixons – owner of Currys and PC World – said that its sales of tumble dryers in April had doubled, while demand for electric heaters had shot up 10-fold from a year before.

- (a) Adapt the diagram below and explain the likely effect on the price of potatoes in 2012 as a result of the flooding. [4]



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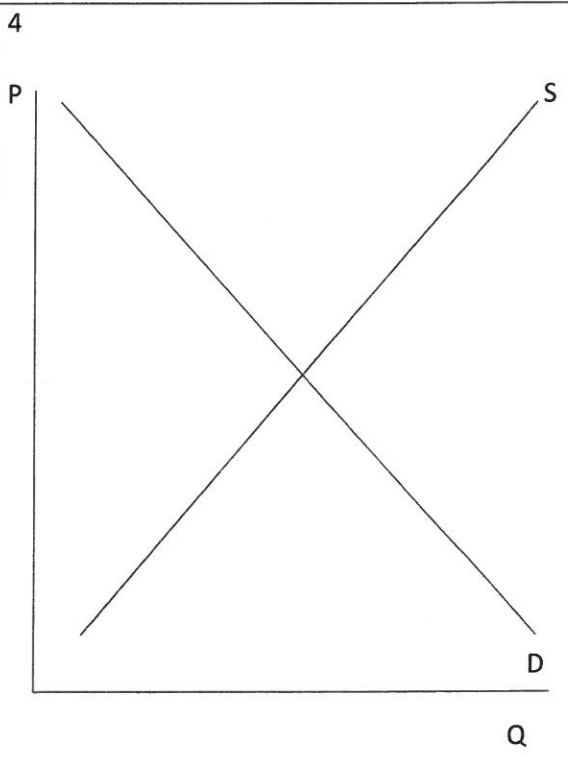
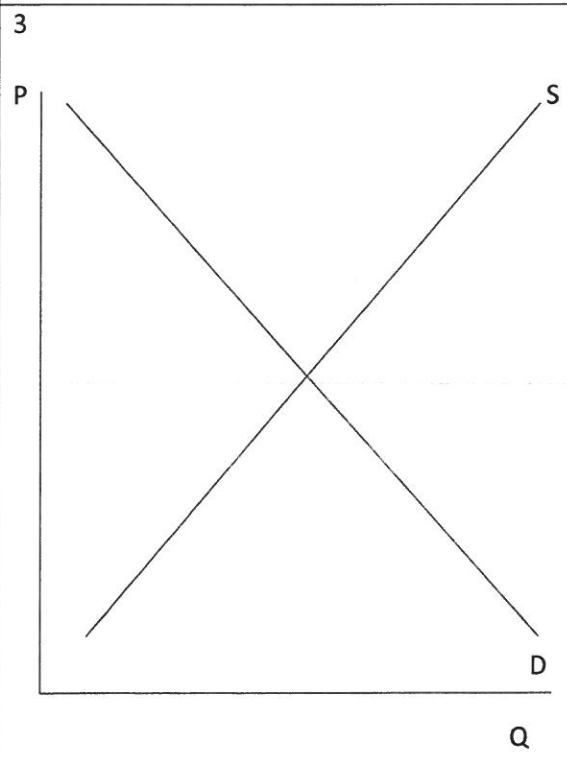
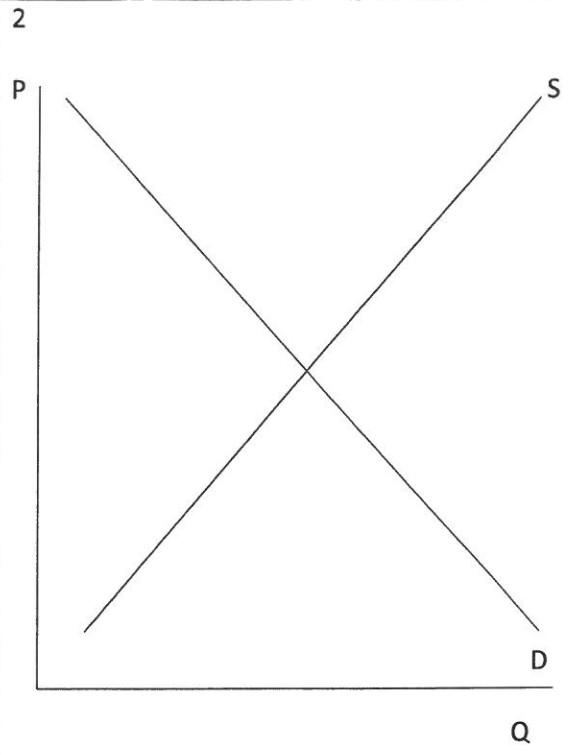
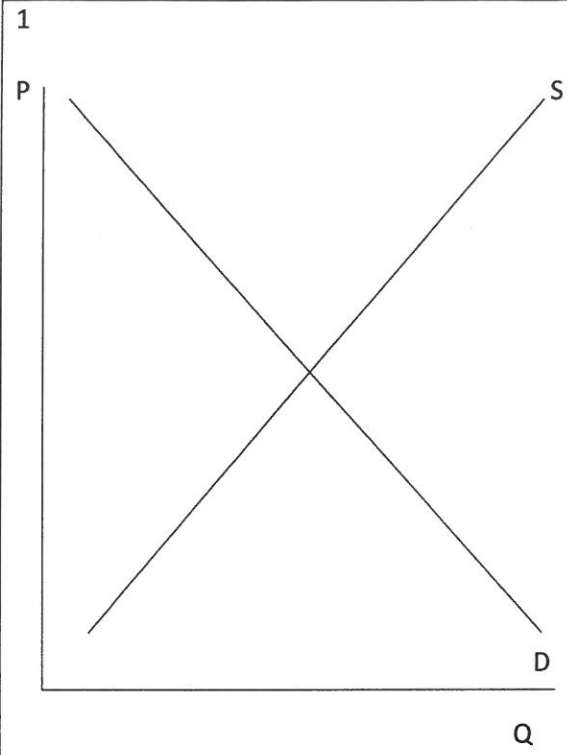


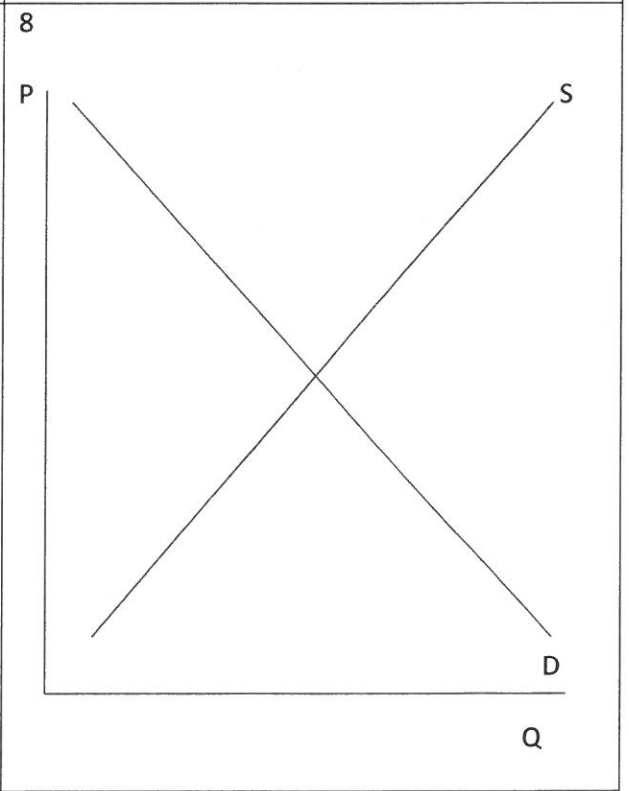
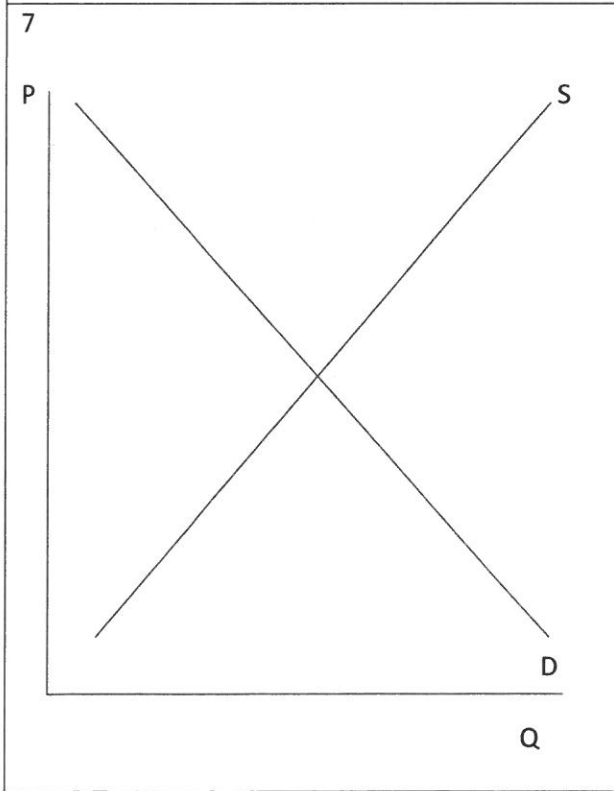
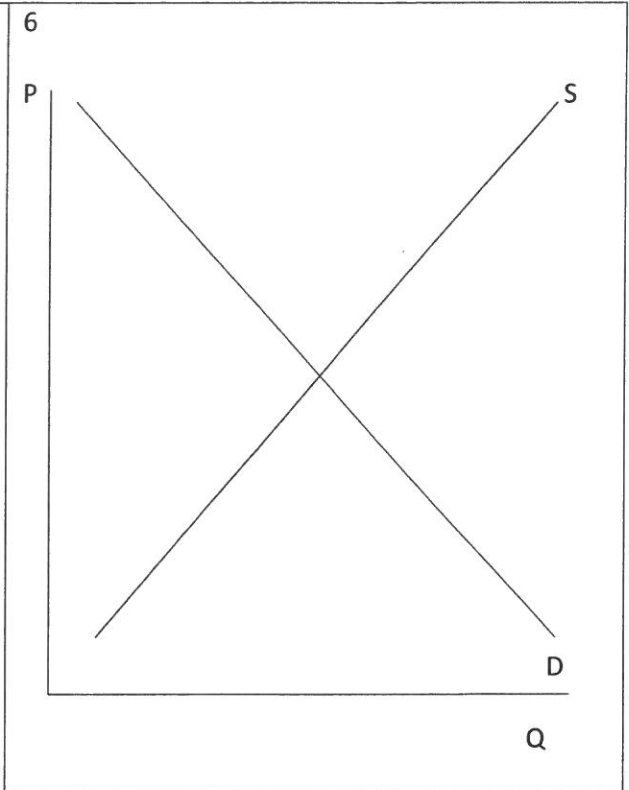
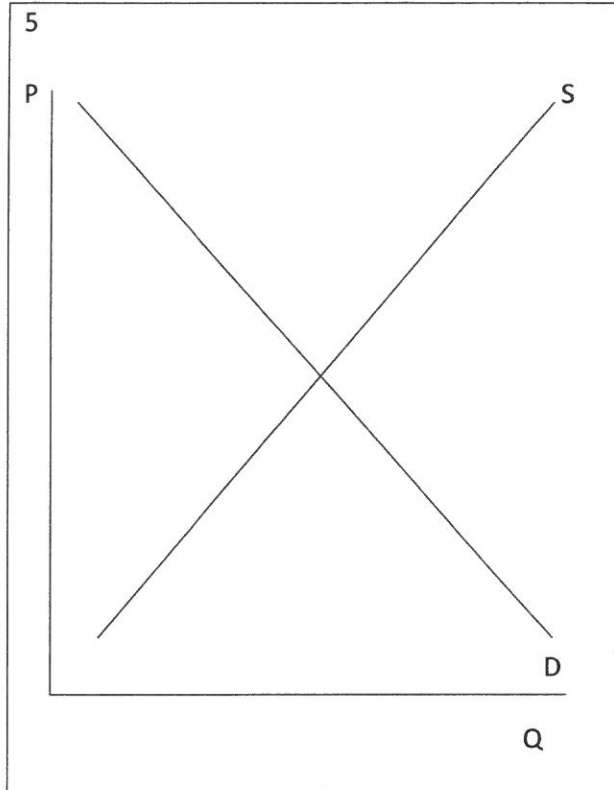
Sketch demand and supply curves for questions 1-8 to show the impact of the scenarios and label them fully. Use a different set of axes for each scenario. (Note: The scenarios are fictional!!)

	<b>Marks</b>
1. There has been a recent series of terrorist attacks on tourist attractions in London. What is the likely impact of this on the price of Mme Tussauds, tickets, London.	<b>3</b>
2. Bus drivers in London walk out on a 3 day strike. What is the likely impact of this on prices charged by London taxi drivers during the strike action?	<b>3</b>
3. The ministry of health warn the public of a widespread salmonella outbreak in chicken. What is the likely impact on the price of chicken?	<b>3</b>
4. What is the likely impact of the salmonella outbreak mentioned in (3.) on the price of turkey?	<b>3</b>
5. A new pesticide has been developed that improves crop yields significantly. What is the likely impact of this on a non-organic farmer and the price of their crops?	<b>3</b>
6. A firm has invented a new machine that will dramatically improve the speed of production of DVDs. What is the likely effect of this on the price of DVDs.	<b>3</b>
7. The recent recession has meant a fall in everyone's average income. What is the likely effect of this on the average price of goods?	<b>3</b>
8. Due to a shortage of plumbers, the government offers a cash incentive of £10 000 for those studying plumbing at colleges. What effect is this likely to have on the wages earned by plumbers in the long term?	<b>3</b>

(Turn over for charts)

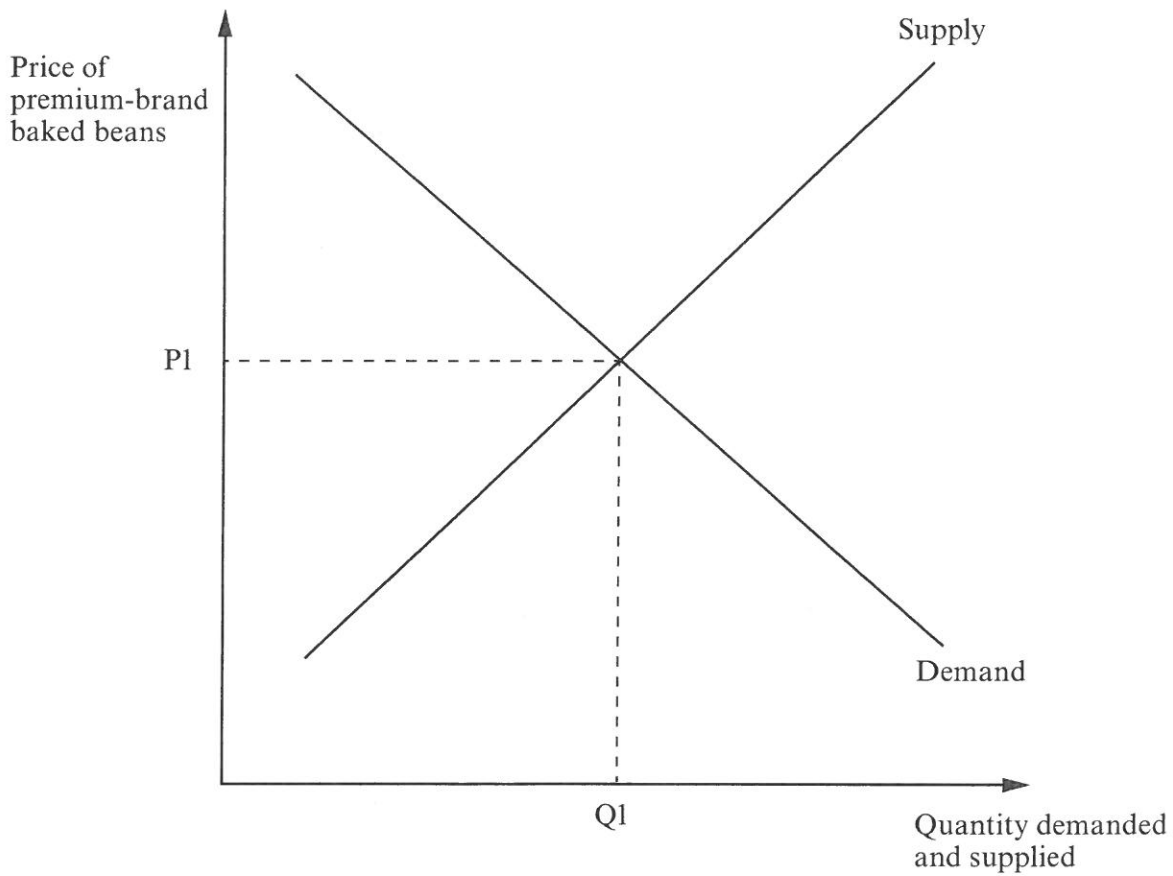






3. The fall in incomes over the past three years is the biggest drop since the 1970s says a report from the Institute for Fiscal Studies. As a result, consumers are changing from buying premium products to cheaper products in the supermarket.

(a) Adapt the diagram below to show the effect of falling incomes on the market for premium-brand baked beans and explain the changes that have taken place. [4]



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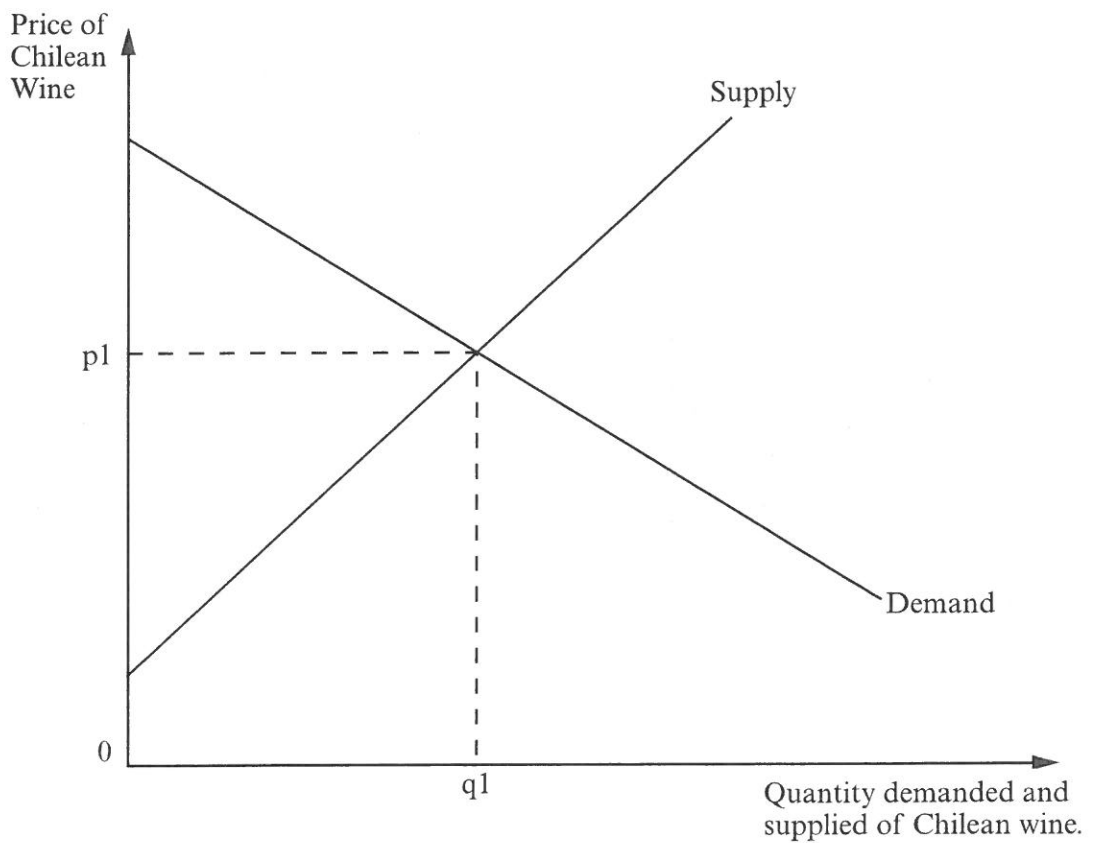
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3. CHILE'S WINE INDUSTRY DEVASTATED BY QUAKE

The earthquake on 28 February 2010 destroyed major parts of Chile's Central Valley. Southern ports were closed and, inside dozens of wine stores, a river of wine soaked into the soil. The big wine storage vats toppled over and wine stored in barrels rolled off the racks, cracked open or popped their seals. Initial estimates put the quantity of lost wine at 12% of wine production and 20% of Chile's stored wine, but the true figure is likely to be much higher than this.

*Adapted from The Guardian, 04 March 2010*

(a) Adapt the diagram below and explain why the price of Chilean wine might rise. [4]



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