**1.2.2 Supply**

1. Which three of the following are likely to lead to a fall in supply?
   1. ~~Fall in raw material costs~~
   2. **Restriction on availability of imported raw materials**
   3. **Rise in indirect taxes**
   4. ~~Government controls reducing energy costs~~
   5. ~~Increase in government subsidies~~
   6. **Rise in wages**

Explanation:

b, c and f are all likely to lead to a rise in the costs of production. This will make it less attractive for some firms to supply the good because of lower or non-existent profits. Less efficient firms will therefore be forced out of the market reducing supply.

1. Which three of the following are examples of indirect taxes?
   1. **VAT**
   2. **Excise tax on tobacco**
   3. ~~Corporation tax~~
   4. **Customs duties on imports**
   5. ~~Government relocation grant~~

Explanation:

Indirect taxes are on goods or services rather than individuals or businesses examples of which are a, b and d. c is an example of a direct tax and e is a subsidy not a tax.

1. Identify which six of the following may affect the costs of production.

|  |  |  |
| --- | --- | --- |
| **Energy costs** | **New technology** | ~~Consumer incomes~~ |
| **Government subsidies** | ~~Price of substitutes~~ | **VAT** |
| ~~Corporation tax~~ | **Natural disaster** | **Exchange rates** |