

**Economics of business case questions****Chapter 5 How market work****P120 Business case**

- 1. What might influence the supply of copper?**  
Technology, number of producers,
- 2. Why might the price of copper increase?**  
Increase in demand; reduction in supply
- 3. Why might it decrease?**  
Decrease in demand; increase in supply
- 4. How might changes in copper prices affect businesses?**  
Affect costs and therefore prices and/or profit margins

**P127 Doing the Business Maths**

Price £	Quantity supplied	Quantity demanded	Supply minus demand	
10	320	50	270	excess supply
9	250	80	170	excess supply
8	180	120	60	excess supply
7	150	150	0	supply = demand
6	90	200	-110	excess demand
5	20	250	-230	excess demand
4	15	300	-285	excess demand

If demand increases by 50%:

Price £	Quantity supplied	Quantity demanded	Supply minus demand	
10	320	75	245	excess supply
9	250	120	130	excess supply
8	180	180	0	supply = demand
7	150	225	-75	excess demand
6	90	300	-210	excess demand

5	20	375	-355	excess demand
4	15	450	-435	excess demand

**P128 Business insight**

## Question

**What are the main factors that influence the demand for a company's shares, do you think?**

Expected changes in the price - depending on expected profits, likely success of business e.g., market share and growth, confidence in leadership.

**P128 Business insight**

## Question

**Can you draw a supply curve to show a market where there is a fixed supply regardless of the price?**

The supply curve would be vertical; there is no change whatever the price.

**P132 Business insight**

## Questions

**1. What factors have affected supply in the sugar beet industry?**

Number of producers; weather conditions; effectiveness of fertilisers and use of other chemicals; technology

**2. Can you think of any factors that might affect demand?**

Eating patterns; success of certain chefs/cookery programmes/cookery books with sugar beet recipes; perceived healthiness; price

**P132 Quick questions**

**For each of the following statements, say whether it is true or false.**

- A demand curve shifts outwards or inwards when the price changes. FALSE
- A change in quantity supplied occurs when there is a change in price. TRUE
- If the price is above equilibrium there is excess demand, assuming a downward sloping demand curve and an upward-sloping supply curve. FALSE
- If the price is below equilibrium there is excess demand, assuming a downward sloping demand curve and an upward-sloping supply curve. TRUE
- With excess supply in a market, the price will tend to fall to restore equilibrium. TRUE
- With excess demand in a market, the price will tend to fall to restore equilibrium. FALSE

### P133 Business Insight

#### Question

1. **In the free market, what would you expect to happen to the prices of products such as carbonated drinks and beer when there is a shortage of CO<sub>2</sub>?**

Answers may include:

- Increase in price as paying more for supplies
2. **Why has Asda had to ration the amount bought?**
    - May be to prevent it being resold at a higher price if there is a shortage; preventing profiteering
    - May be out a sense of fairness - preventing a few taking most of the available supplies

### P133 Quick check

**What changes in supply or demand could cause?**

- a. Higher equilibrium price and lower quantity? Fall in supply
- b. Higher equilibrium price and higher quantity? increase in demand
- c. Lower equilibrium price and lower quantity? fall in demand
- d. Lower equilibrium price and higher quantity? increase in supply

### P135 Quick check

**For each of the following statements, say whether it is true or false.**

- a. An increase in demand is likely to increase equilibrium price and decrease the quantity in a market. FALSE
- b. A decrease in demand is likely to increase equilibrium price and increase the quantity in a market. TRUE
- c. An increase in supply is likely to increase equilibrium price and decrease the quantity in a market. FALSE
- d. An increase in demand is likely to decrease equilibrium price and decrease the quantity in a market. FALSE

### P137 Business insight

#### Question

**What factors do you think might affect the price of a company's shares?**

Answers may include: expected dividends, expected future changes in price (which will depend on expectations about profits, market share, growth etc) and returns available elsewhere.

Explain how speculation will affect the price of bitcoin.

### P140 End of chapter questions

1. **What is a market?**

A market occurs when buyers and sellers come together to trade

2. **What is shown by a demand curve?**

It shows the quantity demanded at each and every price, all other factors constant

3. **What is shown by a supply curve?**

it shows the quantity supplied at each and every price, all other factors constant

4. **What is the likely effect in a market of an increase in demand?**

Higher equilibrium price and quantity

5. **Explain why demand for a product might increase:**

An increase in income (if a normal good), a fall in price of complements, an increase in price of substitutes, an increase in population size

**6. What is the likely effect in a market of an increase in supply?**

Lower equilibrium price; higher equilibrium quantity

**7. Explain why supply of a product might increase:**

An improvement in technology, lower costs, an increase in productivity, more producers

**8. What is the likely effect in a market of a decrease in demand?**

Lower equilibrium price and quantity

**9. What is the likely effect in a market of a decrease in supply?**

Higher equilibrium price and lower quantity

**10. What is the difference between a surplus and a shortage?**

A shortage means there is excess demand; a surplus means there is excess supply