

# Chapter 7

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## Put into practice questions

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**Which one(s) of the following could explain an outward shift in demand for a normal product? Explain your answer.**

- An increase in the price of a substitute TRUE
- An increase in the price of a complement FALSE
- An increase in income TRUE
- A fall in price FALSE (movement along)

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**What is the excess demand or supply when the price is £10, state if it is excess demand or excess supply**

At £10 excess supply 5 units

**What is the excess demand or supply when the price is £5? state if it is excess demand or excess supply**

At £5 excess demand 6 units

**What is the new equilibrium price and quantity**

If demand increases 100% new equilibrium is at £10; equilibrium units 10

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- An increase in the price of complementary products
- An increase in costs
- An increase in income (if it is a normal good)
- An increase in the number of producers

**a. Which of the events above could cause the equilibrium price of a product to change from X to W in Figure 7.7? Explain your answer.**

An increase in costs. Supply shifts inwards.

**b. Which of the events above could cause the equilibrium price of a product to change from X to T in Figure 7.7? Explain your answer.**

An increase in the number of producers. Supply shifts outwards,

**c. Which of the events above could cause the equilibrium price of a product to change from X to V in Figure 7.7? Explain your answer.**

Demand falls and supply increases:

- An increase in the price of complementary products
- An increase in the number of producers

**d. Which of the events above could cause the equilibrium price of a product to change from X to U in Figure 7.7? Explain your answer.**

Outward shift in demand. An increase in income (if it is a normal good)

**e. Which combination of the events above could cause the equilibrium price of a product to change from X to Y in Figure 7.7? Explain your answer.**

- Outward shift in demand and inward shift in supply:
- An increase in costs
- An increase in income (if it is a normal good)

**f. Which combination of the events above could cause the equilibrium price of a product to change from X to R in Figure 7.7? Explain your answer.**

- Outward shift in supply; inward shift in demand
- An increase in the number of producers
- An increase in the price of complementary products

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**Demand is  $Q = 40 - P$**

**Supply is  $Q = 6 + P$**

- **What are the equilibrium price and quantity?**

$$40 - P = 6 + P$$

$$34 = 2P$$

$$P = 17$$

Price is £17

$$\text{Equilibrium quantity} = 17 + 6 = 23 \text{ units}$$

- **What would the new equilibrium price and quantity be if demand were to fall to Q**

$$= 10 - 2P?$$

- **What would the new equilibrium price and quantity be if demand increased to Q**

$$= 60 - 2P?$$

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**Equilibrium has moved from P1Q1 to P2 Q2.  
The most likely explanation for the changes shown is a**

A fall in mortgage interest rates and an increase in the number of houses built

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**Which of the following would best explain an increase in both equilibrium price and quantity in the market for a normal good?**

Answer is A. The removal of an effective maximum price

**Explain what could cause a movement from X to D in Figure 7.9**

A movement from X to D: An increase in supply and a decrease in demand.

## End of chapter put into practice questions

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**Using supply and demand diagrams, illustrate the effect of each of the following**

- A decrease in material costs: outward shift in supply
- A decrease in the price of a complementary good: outward shift in demand
- A decrease in the price of a substitute product: inward shift in demand
- An increase in indirect taxation: inward shift in supply

**Demand is  $Q = 60 - 2P$**

**Supply is  $Q = 8 + 1P$**

**What are the equilibrium price and quantity?**

$$60 - 2P = 8 + 1P$$

$$52 = 3P$$

Equilibrium price = £17.33

Equilibrium quantity = 25.33 units

**What would the new equilibrium price and quantity be if demand were to fall to  $Q = 20 - 2p$**

If demand fell to  $Q = 20 - 2P$

$$8 + 1P = 20 - 2P$$

$$3P = 12$$

$$P = 4$$

Equilibrium price = £4

Equilibrium quantity = 12 units

1. Inward shift in demand
2. Inward shift in supply
3. Outward shift in supply
4. Fall in demand might be due to

**The shift in demand from D1 to D2 in Figure 7.14 for a normal product could be caused by**

- a. Fall in the price of a substitute. FALSE
- b. Fall in the price of a complement. TRUE
- c. Improvements in production technology. FALSE
- d. Reduction in the number of suppliers. FALSE

**Which of the following might explain the move from X to Y in Figure 7.15 for a normal good? Explain your answer.**

- a. A decrease in income. False
- b. A fall in price. False
- c. A decrease in production costs. True- its an increase in supply
- d. An increase in the price of a substitute. False

**D2 shows how the demand curve has shifted from D1. S2 shows how the supply has shifted from S1. Which diagram in Figure 7.16 best represents how demand and supply for a normal product would shift if the costs of production rise and incomes fall? Explain your answer**

Diagram A inward shift of supply and demand.