2 Price determination – Part 1 — Answers

Answers

2.1 When the price rises, the quantity demanded falls (and vice versa).

2.2 Any one: higher income (for a normal good); a rise in the price of a substitute; a fall in the price of a complement; tastes turning in its favour.

2.3 When the price rises, the quantity supplied rises. It holds because a higher price means more profit, so firms are willing to make and sell more.

2.4 The price where the quantity demanded equals the quantity supplied, so there is no pressure for the price to change.

2.5 It causes excess demand (a shortage); buyers compete for the good, so the price is pushed up towards the equilibrium.

2.6 Higher input costs make coffee less profitable to supply, so the *supply* curve shifts to the *left* (less is supplied at each price). With demand unchanged, this raises the equilibrium price and lowers the equilibrium quantity.