

5.2 Changes in Factor Demand and Factor Supply

Name: _____ Class: _____ Date: _____

Total: 9 marks

KEY WORDS factor demand 要素需求 • factor supply 要素供给

Objective

Build the skills to answer exam questions on **changes in factor demand and factor supply**.

You must be able to:

- identify the determinants that shift **factor demand** 要素需求, including the output price and worker **productivity**
- explain how the price of a related input shifts factor demand
- identify the determinants of **factor supply** 要素供给
- predict the effect of a shift on the equilibrium **wage** and quantity

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Factor demand shifters

Since demand for a factor is derived from its MRP, it rises when the **output price** rises or workers become more **productive**. A change in the price of a related input can also shift it.

■ Factor supply shifters

The **number of available workers**, and their willingness to work at each wage.

■ Equilibrium effects

More labour **demand** → higher wage and quantity. More labour **supply** → lower wage, higher quantity.

2 Practice

2.1 State one determinant that shifts factor demand. [1]

2.2 State how an increase in worker productivity affects factor demand. [1]

2.3 State the effect of an increase in the number of available workers on the equilibrium wage. [2]

3 Exam-style questions

3.1 Factor demand rises when the price of the good it helps make [1]

- **A** falls
 - **B** rises
 - **C** is zero
 - **D** is fixed by law
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3.2 An increase in labour supply, other things equal, [1]

- **A** raises the wage
 - **B** lowers the wage
 - **C** raises MRP
 - **D** has no effect
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3.3 The demand for a product rises sharply.

(a) State the effect on the MRP of the labour making it. [1]

(b) State the effect on the demand for that labour. [1]

(c) State the effect on the equilibrium wage.

[1]

Solutions

2.1 any one of: the output price, worker productivity, the price of a related input.

2.2 it increases factor demand (higher MRP).

2.3 the wage falls and the quantity of labour rises.

3.1 B.

3.2 B.

3.3 (a) it rises. (b) labour demand rises. (c) the equilibrium wage rises.