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# Economics lesson 4 – Answer sheet

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Distinguish between demand and supply.

Demand in economics means not only the willingness to buy a product but also the ability to buy a product.

Supply means the willingness and ability to sell a product.

Illustrate shifts and movements along the demand and supply curve.

Please find the answers / exemplar charts on the PowerPoint.

## Activity

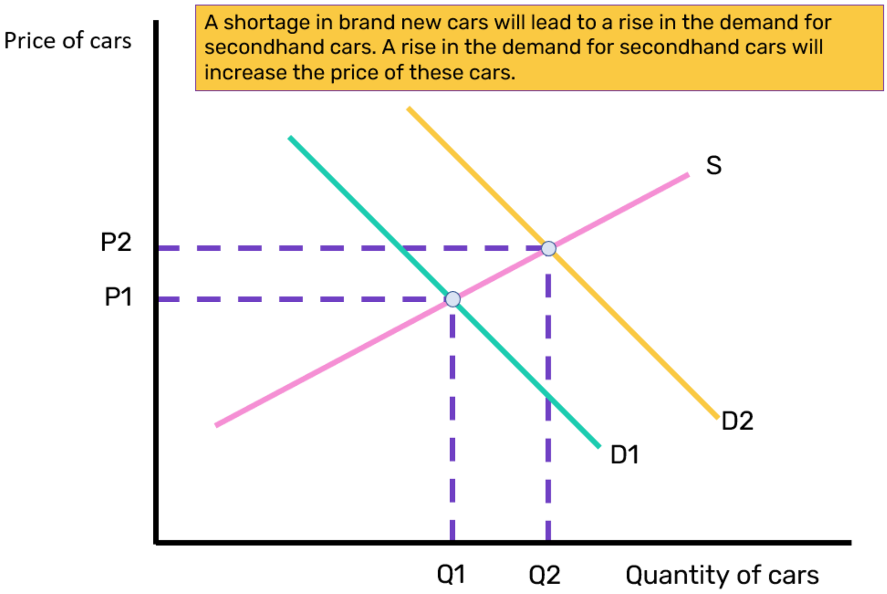
Question 1

In March 2020, the world was hit by a global crisis Coronavirus. The global crisis impacted the automotive sector with new car production down by 29.3% in 2020 from 2019 levels. The automotive industry faced various setbacks in 2020 due to border closures and limited transportation. The crisis led to a significant fall in demand due to national lockdowns and a slow down of supplies as manufacturing plants had temporarily closed. The effects started in China, where car sales plummeted in February 2020. By April 2020, both USA and Europe car sales dropped by over 65%. Post Coronavirus there has been a further impact on the supply of new cars due to a shortage of chips.

James is Head of Sales at Volord, an internal car manufacturer, and some of his customers (who are purchasing brand new cars) are having to wait 6-8 months to receive their car. This is due to supply chain issues.

Using a demand and supply diagram, explain the impact of a shortage of brand-new cars on secondhand cars.

# Answer




Question 2. Explain two factors that are important in determining the demand for brand new cars.

1. Changing price of substitute goods.
2. Changing price of complementary goods.
3. Changes in the real income of consumers.
    - When real income goes up, our ability to purchase goods and services increases, and this causes an outward shift in the demand curve.

- But when incomes fall, there will be a decrease in demand, except for inferior goods.

4. Changes in the distribution of income - a more equal distribution of income can increase total demand because relatively poorer consumers spend a higher proportion of their income.
5. The effects of advertising and marketing.
6. Interest rates and demand (e.g. affecting the cost of credit) – remember a lot of customers now buy cars on finance.
7. Changes in the size and age structure of a population.
8. Seasonal factors for some goods and services.
9. Social and emotional factors.

## Extension activity

The demand for brand new cars at Volord

| Price of Car 1 | £24,000 | £22,000 | £20,000 | £18,000 | £16,000 |
|---|---|---|---|---|---|
| Number of cars sold per day | 4 | 6 | 8 | 10 | 12 |

| Price of Car 2 | £34,000 | £32,000 | £30,000 | £28,000 | £26,000 |
|---|---|---|---|---|---|
| Number of cars sold per day | 2 | 4 | 6 | 8 | 10 |

| Price of Car 3 | £44,000 | £42,000 | £40,000 | £38,000 | £36,000 |
|---|---|---|---|---|---|
| Number of cars sold per day | 1 | 2 | 3 | 4 | 5 |

Using the information in the table, and graph paper if available, draw the demand curves for each of the cars. Discuss in pairs why the three demand curves are all different.

Please see the demand curves on the PowerPoint. Reasons for differences in the demand curve include:

- Price.
- Proportion of income spent.
- Price elasticity of demand – for some consumers, the purchase of a brand-new car is more price elastic.