

Helping Volord with Supply and Demand Economics lesson 4

Learning aim: To be able to understand demand and supply in competitive markets, including individual supply and demand shifts and movements along the supply and demand curves.



Aiming high step 6 – I set goals by an understanding of what is needed.



Staying positive step 7 – I look for opportunities in difficult situations.

Task

What is the difference between demand and supply?

Consider how you would illustrate shifts and movements along the demand and supply curves.

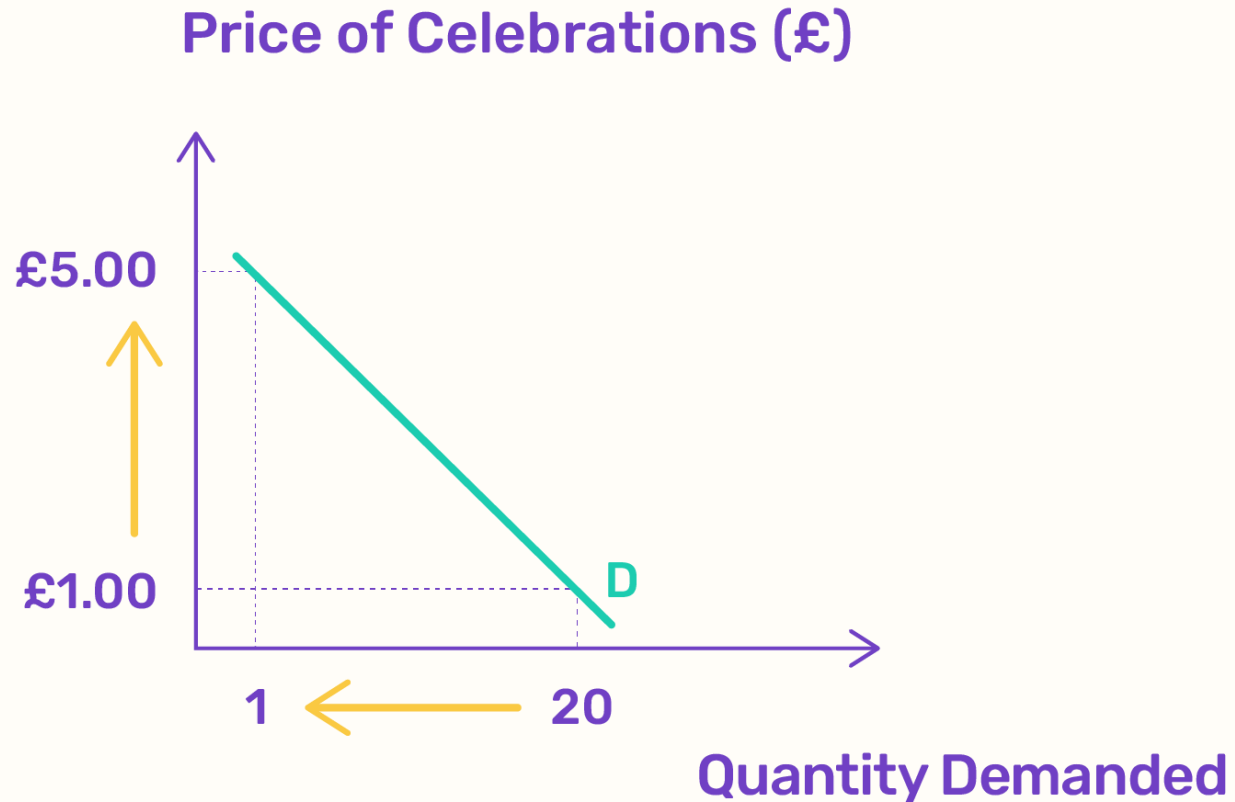
Try and draw these diagrams on your worksheet.

Demand

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



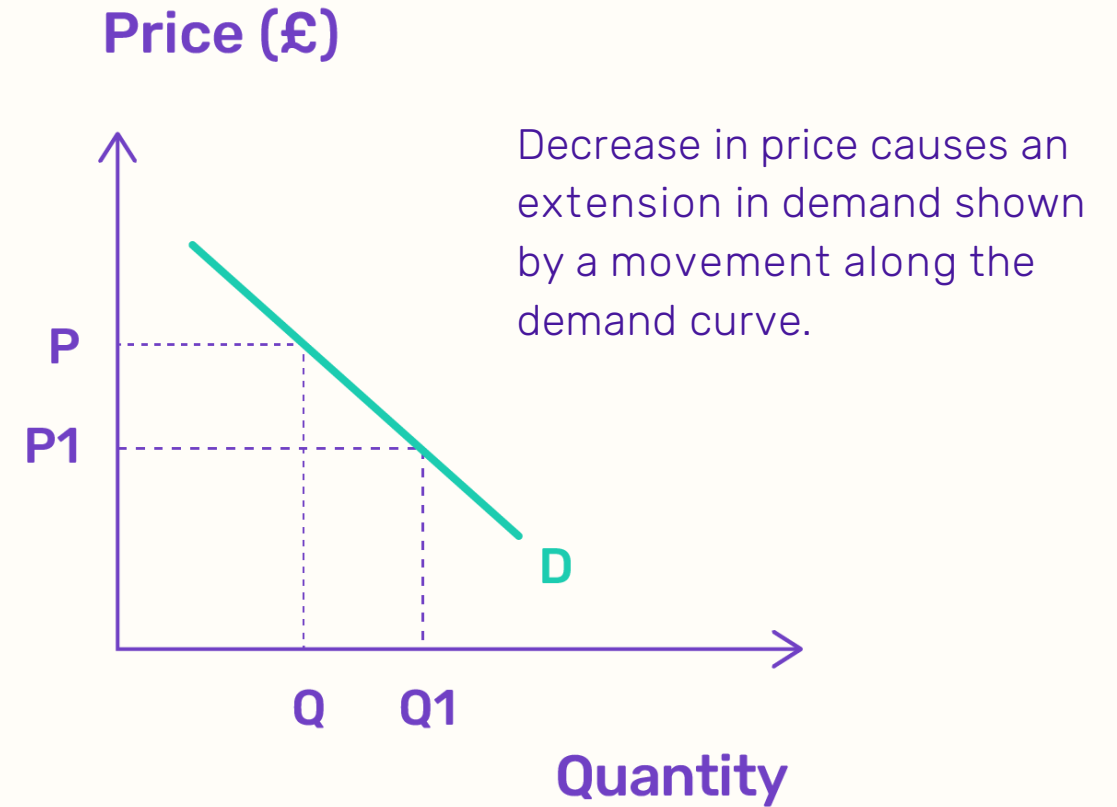
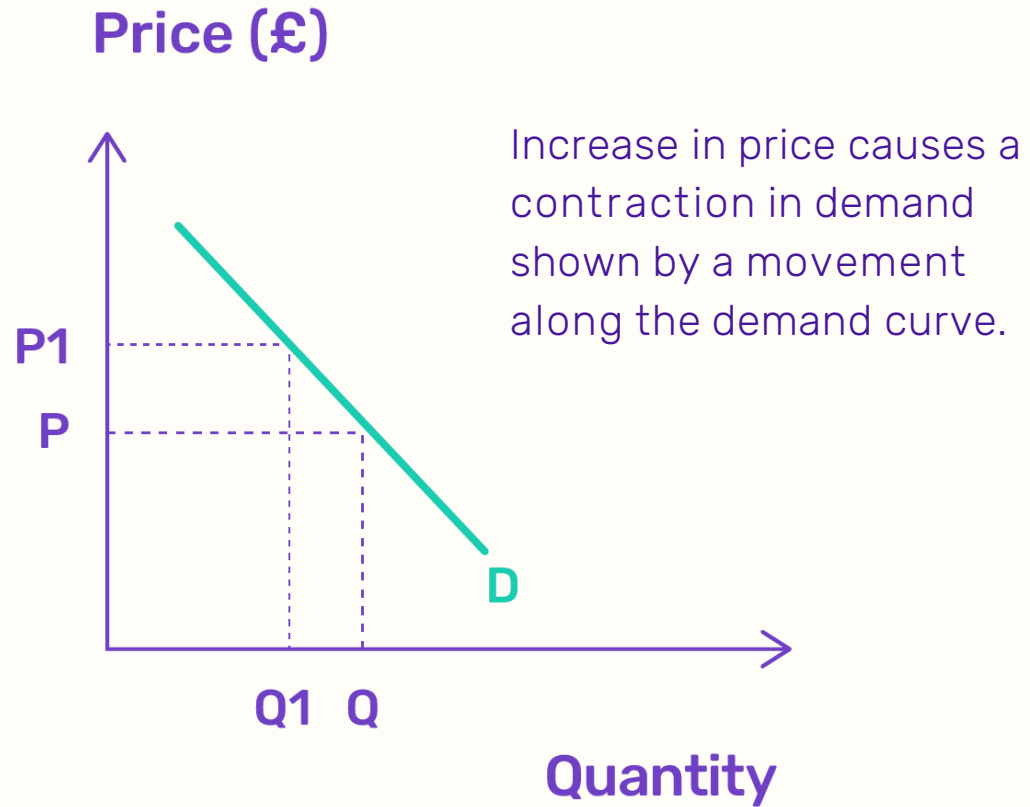
Theory of demand and the demand curve



The theory of demand states that as the price of a good rises, the quantity demanded of the good will fall, and vice-versa.

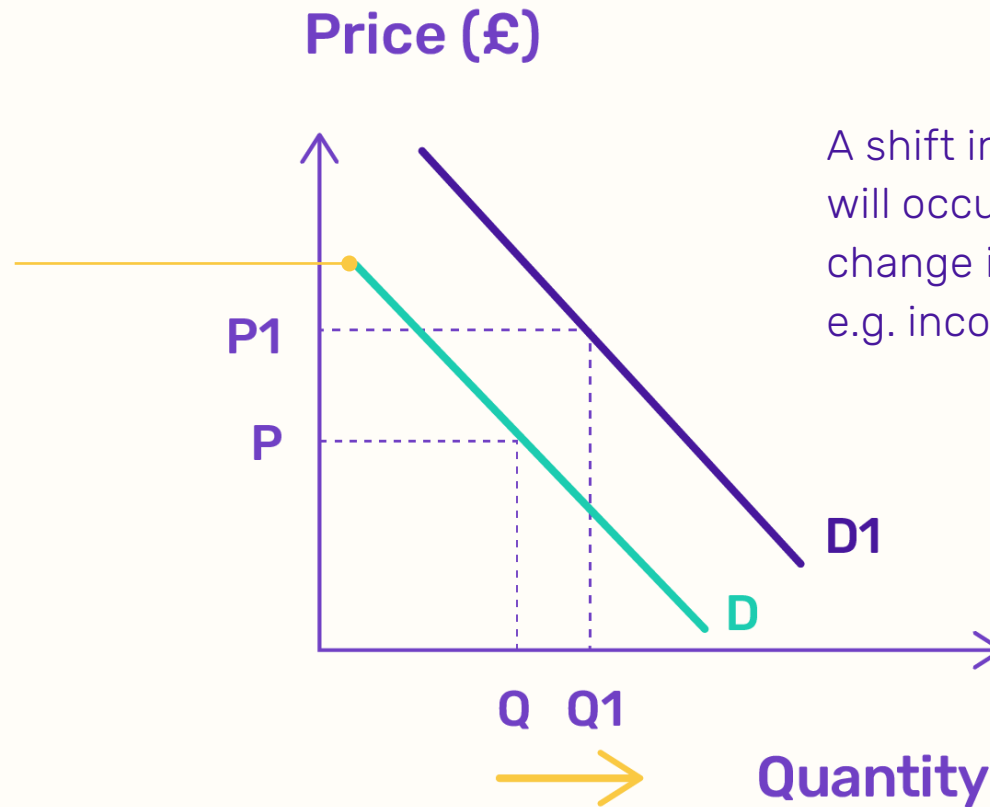
This theory assumes *ceteris paribus*, which means 'all other things being equal'.

Extension and contraction in demand –
this only happens if there is a change in price



Increases in demand

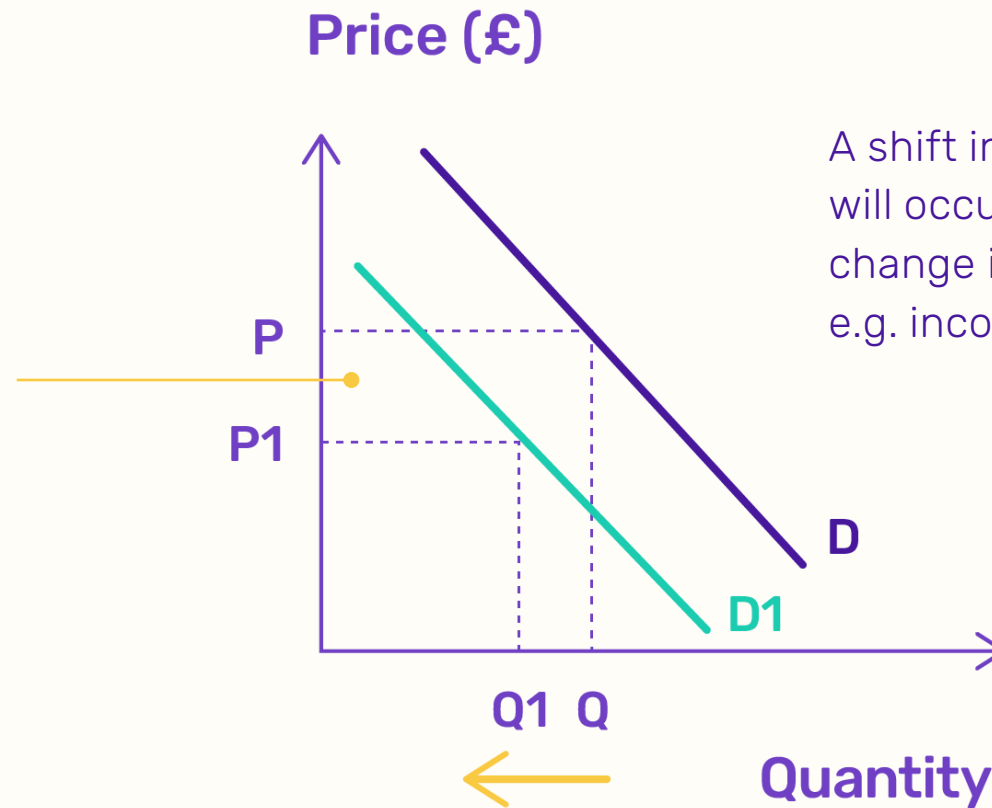
If demand increases,
we shift the demand
curve to the right.



A shift in the demand curve
will occur as a result of a
change in another factor –
e.g. income, fashion etc.

Decreases in demand

If demand decreases, we shift the demand curve to the left.



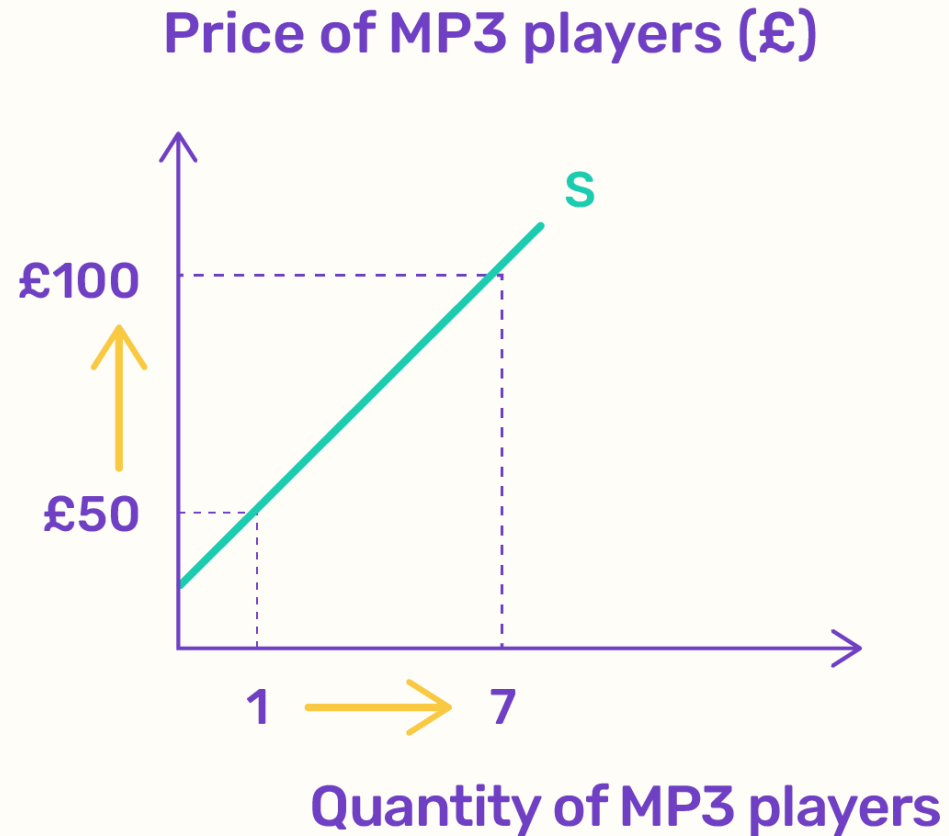
A shift in the demand curve will occur as a result of a change in another factor – e.g. income, fashion etc.

Supply

Supply means the willingness and ability to sell a product.



Theory of supply and the supply curve



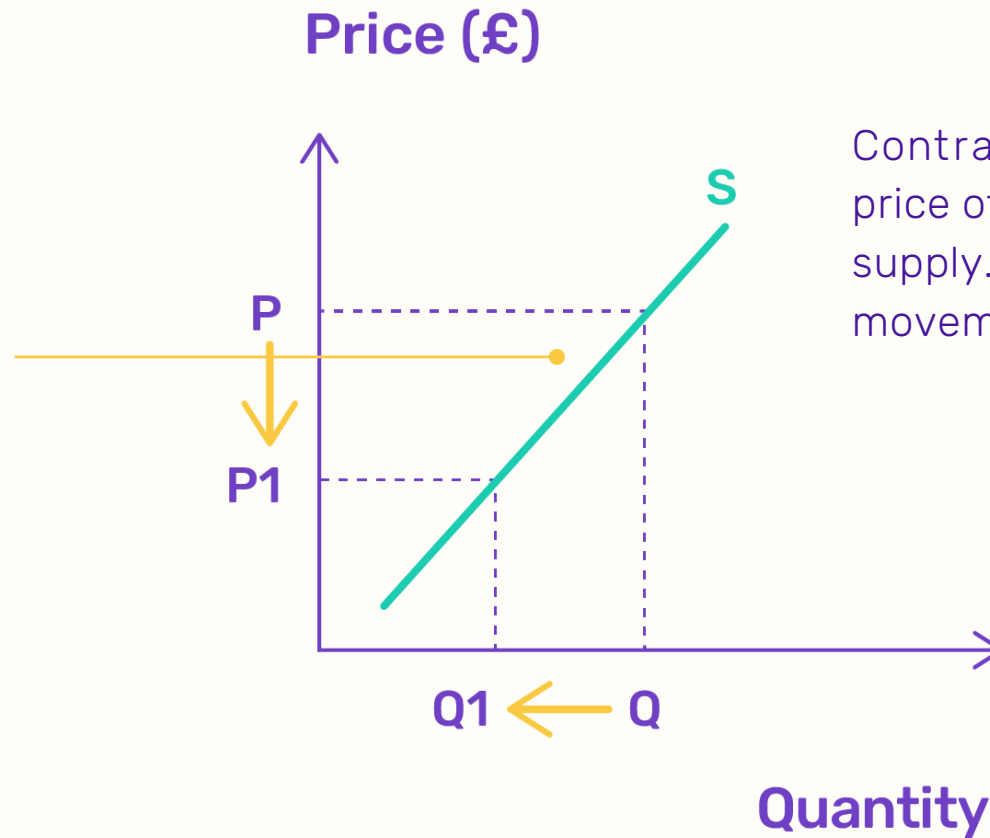
Firms and producers supply goods

The theory of supply states that as the price of a good rises, the quantity supplied of the good will rise, and vice-versa.

This theory assumes *ceteris paribus*, which means 'all other things being equal'.

Movement along the supply curve

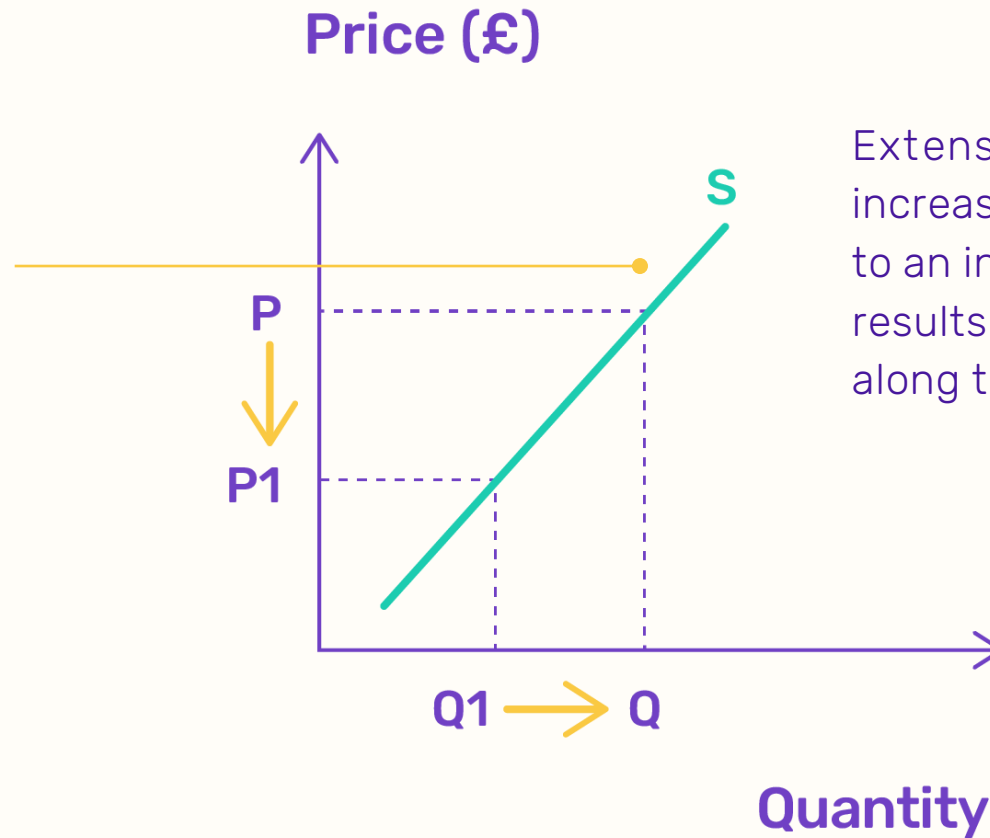
Decrease in price causes a contraction in supply shown by a movement along the supply curve.



Contraction of supply: A fall in price offered leads to a fall in supply. It results in a downward movement along the supply curve.

Movement along the supply curve

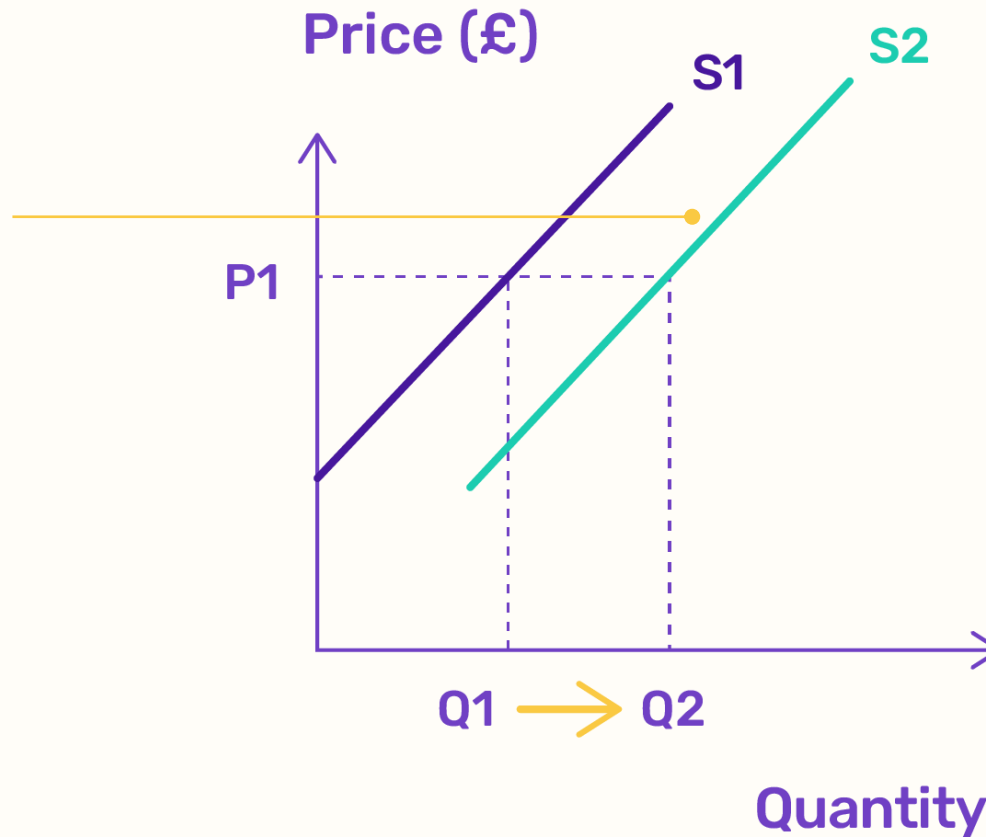
Increase in price causes an extension in supply shown by a movement along the supply curve.



Extension in supply: An increase in price offered leads to an increase in supply. It results in an upward movement along the supply curve.

Shifts in supply - increase

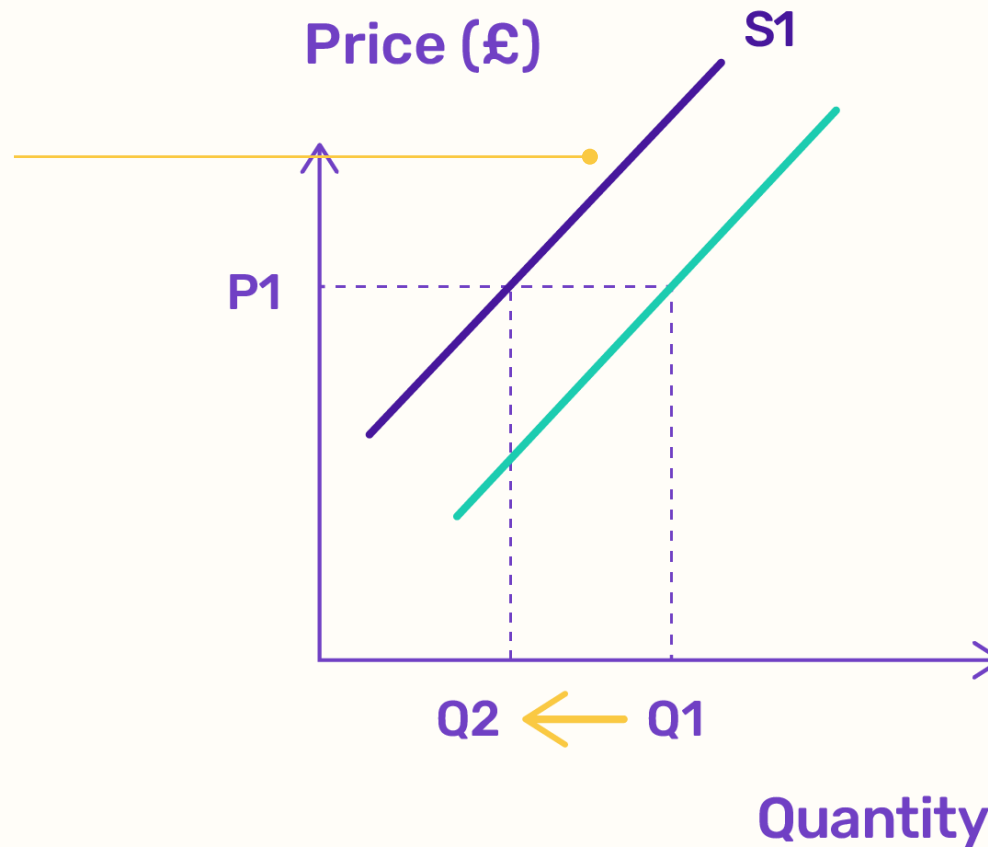
If supply increases for any reason other than price (e.g. costs of production fall), we shift the supply curve to the right.



If there is a fall in the production costs, the quantity supplied will rise at every given price. As a result, the supply curve will shift to the right, to S1, as shown in the diagram. At the price p_1 , the quantity of goods offered for sale would rise from q_1 to q_2 .

Shifts in supply - decrease

If supply decreases for any reason other than price (e.g. costs of production rise), we shift the supply curve to the left.



If there is a rise in production costs, the quantity supplied will fall at every given price. This will cause the supply curve to the left, to S2. At the price P1, the quantity of the goods offered for sale would fall from Q1 to Q2.

Scenario

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 a Volord branch, an international car manufacturer. 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.

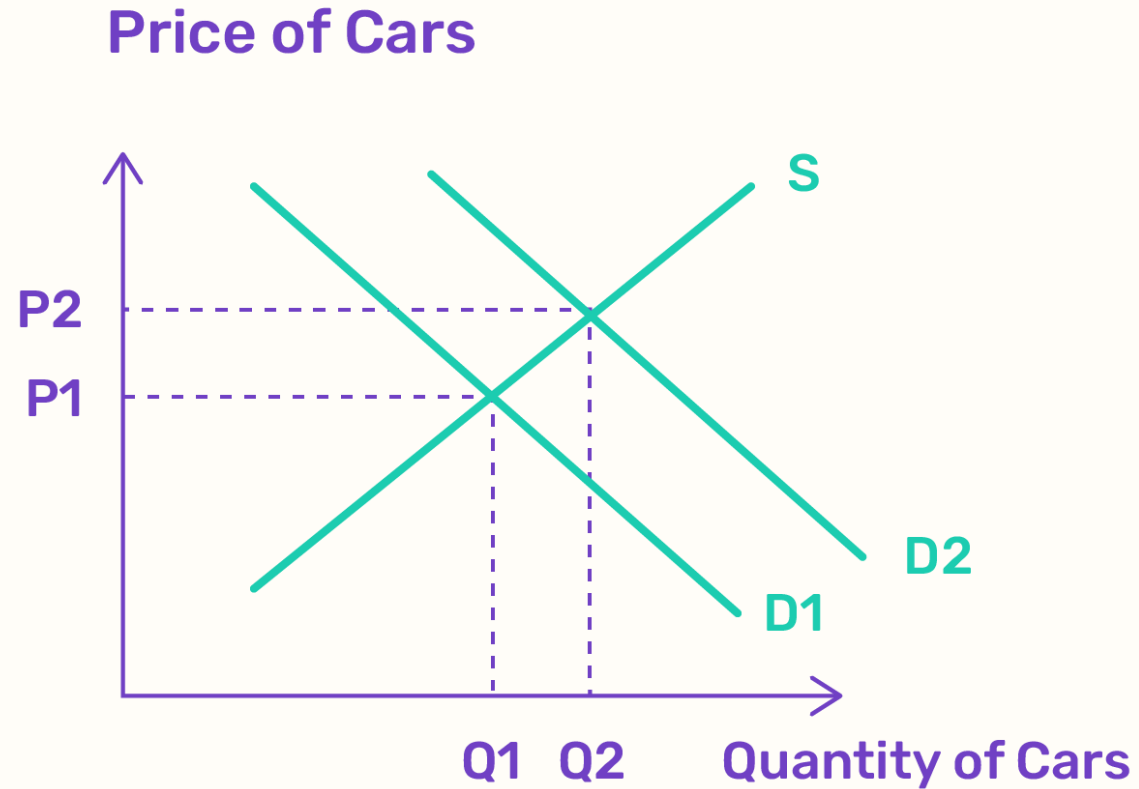


Activity

Q2 – Using a demand and supply diagram, explain the impact of a shortage of brand-new cars on secondhand cars.



Answer



A shortage in brand new cars will lead to a rise in the demand for secondhand cars.
A rise in the demand for secondhand cars will increase the price of these cars.


Activity

Q2 – Explain two factors that are important in determining the demand for brand new cars.

For example, would changes in the real income of consumers impact the demand for brand new cars?



Possible answers

- 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 - Changes in the size and age structure of a population.
 - 7 - Seasonal factors for some goods and services.
 - 8 - 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

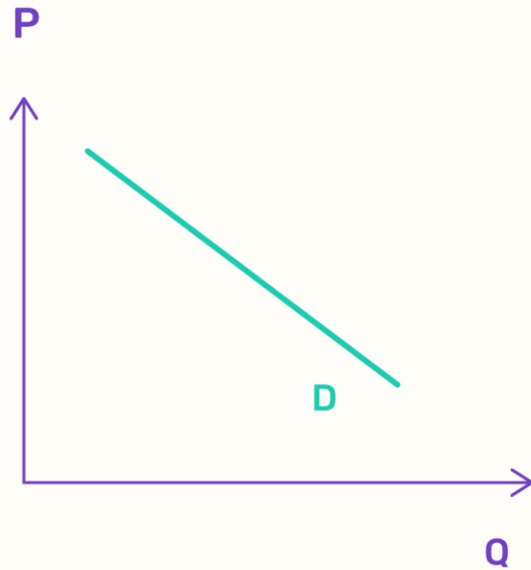
Price of Car 3	£44,000	£42,000	£40,000	£38,000	£36,000
Number of cars sold per day	1	2	3	4	5

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.

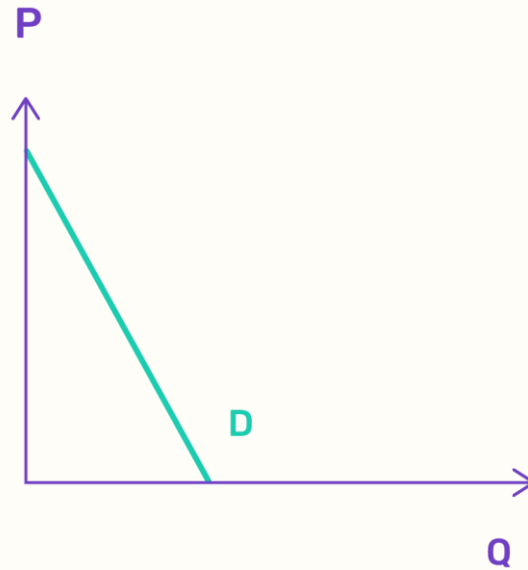


Extension activity answers

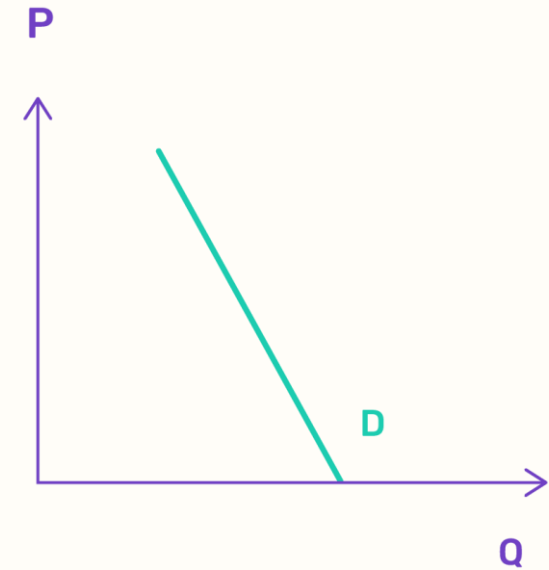
Car one



Car two



Car three



Reasons for differences in the demand curve:

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

Reflection part 1

1 – Write down three questions to ask other people in the class about today's class. You should know the answers to these questions before asking your peers.

Reflection part 2

2 – How effective were you at responding to setbacks to achieve your goals? Rate yourself 1-5.
1 (I found it difficult to overcome setbacks and it stopped me achieving goals for the lesson) – 5 (I used different strategies to overcome setbacks and achieve the goals for the lesson)

3 – How could you develop your skills in remaining positive in other areas of your life?