eLearneconomics: Demand (1)

Student response

Price and quantity demanded have an inverse relationship.

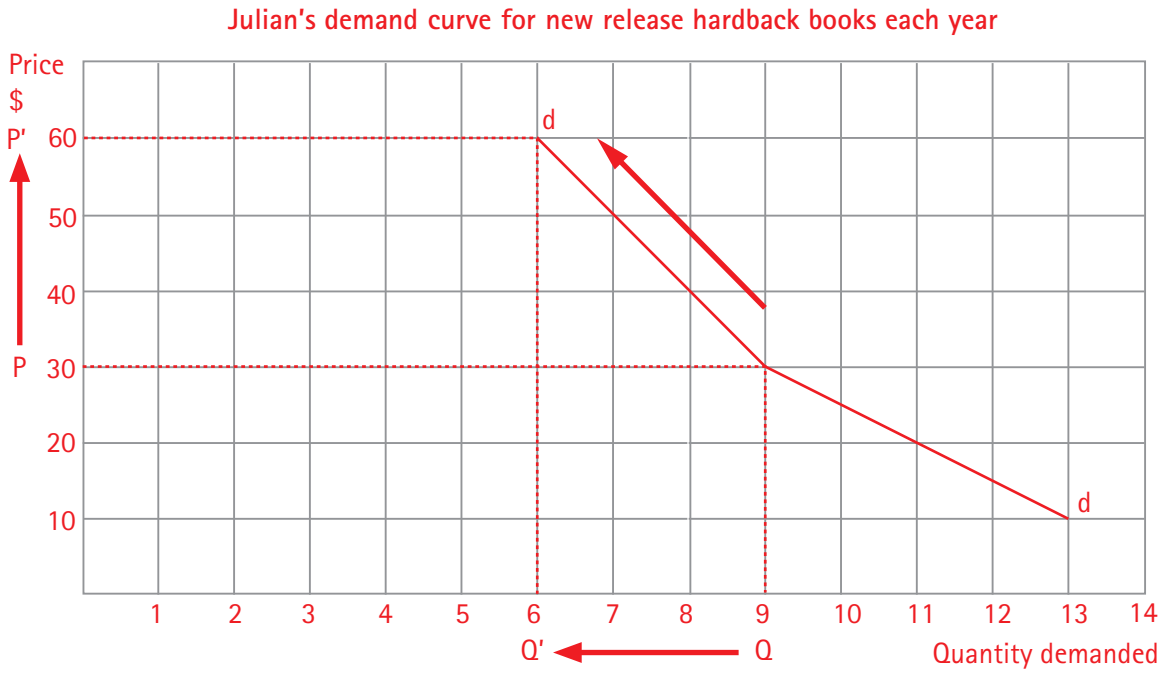
Explain the relationship between price and quantity demanded.
In your answer you should:

- draw a demand curve using the schedule opposite and the grid provided
- describe what is meant by a consumer and consumer demand
- show a price increase from $30 per book of 100% and give reasons for the change in the number of hardback books purchased
- fully explain several flow-on effects this price change may have on Julian.

Julian's demand schedule for new release hardback books each year	
Price ($)	**Quantity demanded**
10	13
20	11
30	9
40	8
50	7
60	6

eLearneconomics: Demand (1a)

Solutions



A consumer is an individual (person) who buys goods or services, for example, Julian buying hardback books. Consumer demand is the quantity (or amount) of a good or service that one individual is willing and able to buy at various prices. As the price increases from $30 to $60 (i.e., 100%) the quantity demanded of hardback books by Julian decreases from 9 books to 6 books because he cannot afford them with his income. OR he is less willing and able to buy them with his limited income and he will now switch to buying other goods or activities because buying hardback books has become relatively more expensive (substitution).

A flow-on effect for Julian is that his spending on hardback books increases from $270 ($30 x 9) to $360 ($60 x 6). Julian will read fewer books so may have more time for other leisure activities. OR he may go to the library and get books out instead of purchasing them. He could decide to join a book club to see if this is a cheaper way to obtain books that he may want to read.

The answer needs to link graphical changes to the price change indicated and explains their connection. Explains flow-on effects for Julian in the context of hardrback books.

eLearneconomics: Demand (2)

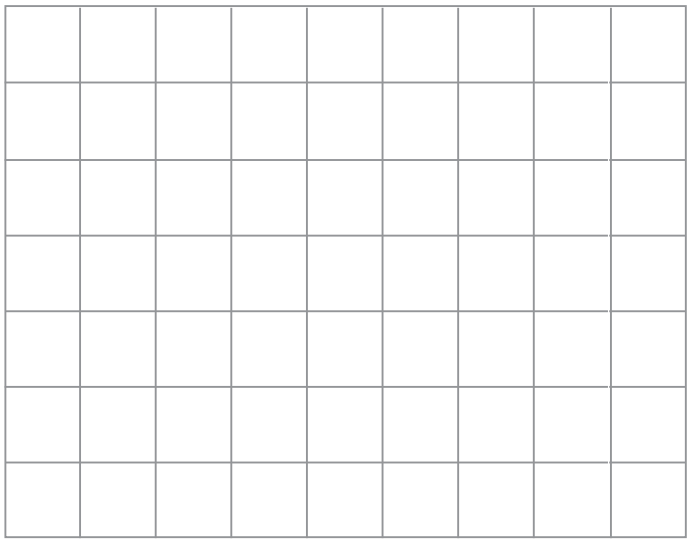
Student response

Maria buys wine at the local farmers' market.

Using the axes provided below, draw Maria's weekly demand curve for wine. Fully label your graph. On your graph show the effect of a price decrease from $12 to $8 per bottle for Maria's wine. Fully label the changes. In your answer you should:

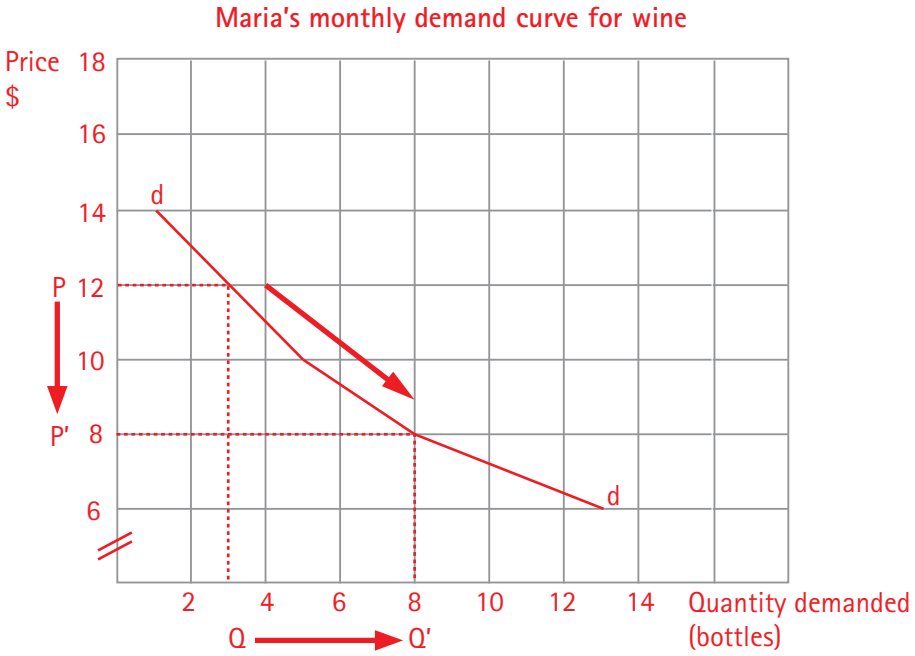
- describe the law of demand, by referring to relevant data from your graph
- fully explain the effect of the price increase, by referring to relevant data
- fully explain what Maria might do if the price for her wine increases above $16 a bottle.

Maria's monthly demand schedule for wine	
Price ($)	Quantity demanded (bottles)
14	1
10	5
8	8
6	13



eLearneconomics: Demand (2a)

Solutions



The law of demand states that as price decreases quantity demanded increases, ceteris paribus (i.e., holding all other factors constant). When the price of wine falls from $12 (P) per bottle to $8 (P') per bottle, the quantity demanded by Maria increases from 3 bottles (Q) to 8 bottles (Q').

Maria will buy more wine as the price falls because she can afford more with her income. She is more willing and able to buy bottles of wine. Wine will be relatively cheaper compared to other substitute drinks.

If the price increases to $16 a bottle Maria is unlikely to buy any wine because she cannot afford it and is likely to buy a relatively cheaper substitute drink.

The student needs to draw the graph correctly with the law of demand explained with the change in price and quantity demanded. Reason given for the law of demand. Effect of $16 a bottle for wine explained in the context of Maria.

eLearneconomics: Demand (3)

Student response

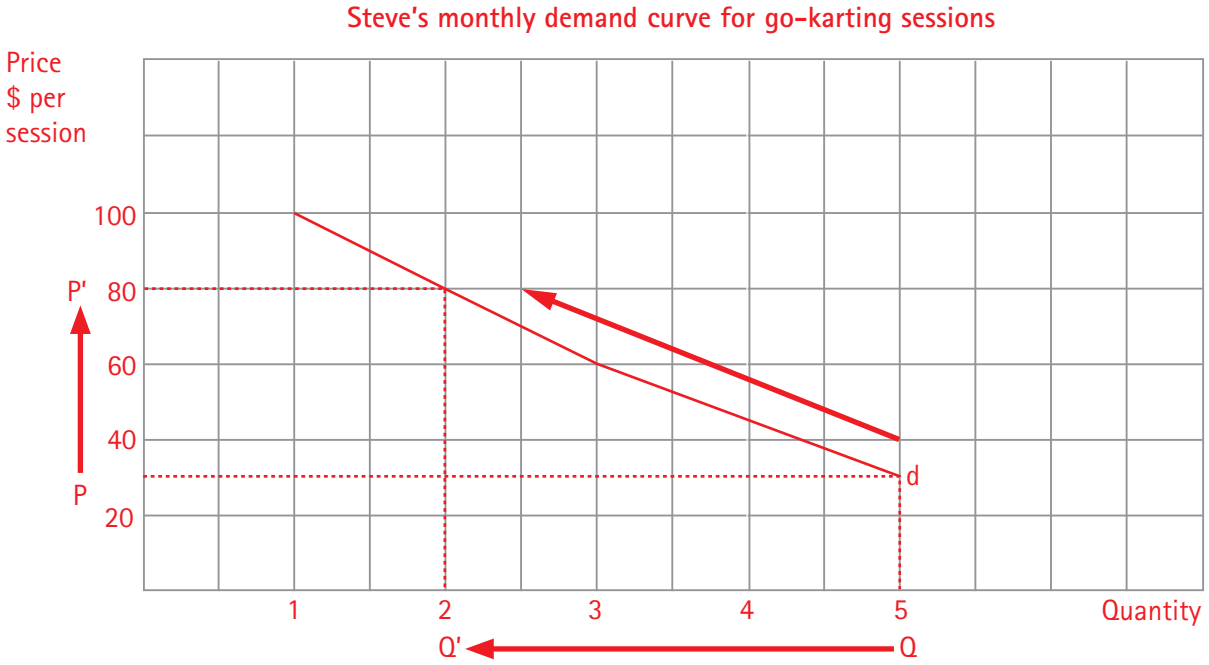
As part of what he does during each month, Steve usually goes go-karting to catch up with and talk to his mates. At $30 per session he will do 5 sessions. When the price doubles he will go 3 times. At $100 he attends once.

Fully explain the law of demand in the context of Steve's demand. In your answer you should:

- draw a demand curve using the information above. Show the effect of the price of go-karting sessions changing from $30 to $80
- with reference to the law of demand, discuss the changes in the number of go-karting sessions Steve may attend as the price of each session rises from $30 to $80
- explain flow-on effects this price change may have on Steve.

eLearneconomics: Demand (3a)

Solution



The law of demand states that as price increases, the quantity demanded decreases, ceteris paribus. In this instance as price rises from $30 to $80 per session, Steve's quantity demanded falls from 5 sessions to 2 sessions, as shown on my graph, as P increases to P', Q falls to Q', ceteris paribus.

Steve will reduce the number of go-karting sessions he attends with his mates because he cannot afford to go to as many sessions using his limited income. He will be less willing and able to buy go-karting sessions. Steve will switch away from go-karting sessions because other goods or activities have become relatively cheaper (substitution).

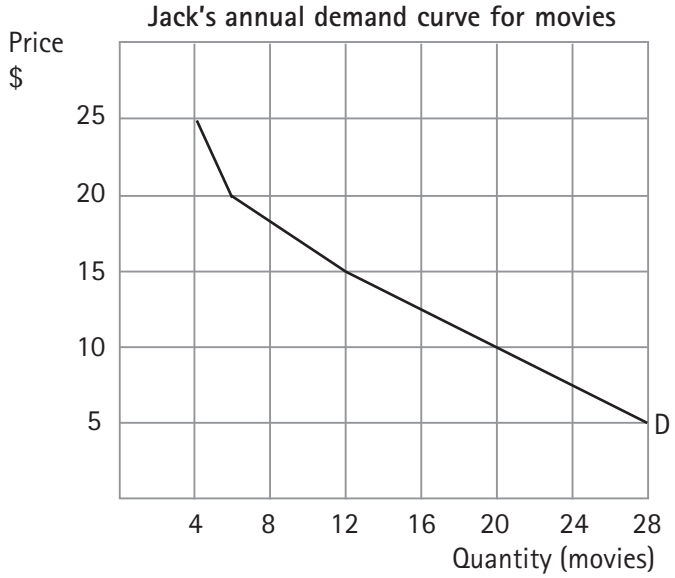
A flow-on effect of this price increase is that Steve may not see his mates as often and his go-karting skills may diminish. Steve may look at alternative ways of catching up with his friends. Steve's spending on go-karting sessions will rise from $150 ($30 x 5 sessions) to $160 ($80 x 2 sessions).

Graph correctly with the law of demand explained with the change in price and quantity demanded. Reason given for the law of demand. Flow-on effects explained in the context of Steve, go-karting and his mates.

eLearneconomics: Demand (4)

Student response

Jack uses income from working for a family friend to buy movie tickets.



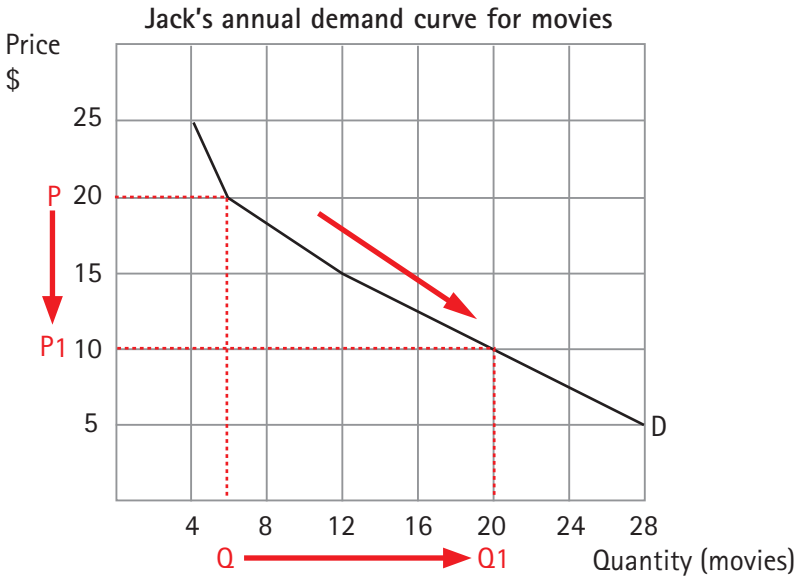
Use the demand curve to complete Jack's demand schedule for movies. Show on the graph above, the effect if the price per movie falls from $20 to $10. Fully label all changes.

Discuss the law of demand by referring to Jack's demand for movies. In your answer:

- describe the law of demand by referring to the data
- explain why the quantity demanded by Jack changes when the price of movies falls
- identify a complementary good Jack may buy and explain the flow-on effect on this complementary good of the fall in the price of movies.

eLearneconomics: Demand (4a)

Solution



Jack's annual demand schedule for movies	
Price ($)	Quantity (movies)
5	28
10	20
15	12
20	6
25	4

The law of demand states that as price decreases quantity demanded increases, ceteris paribus. As the price falls from $20 (P) to $10 (P1) the quantity demanded of movies by Jack increases from 6 movies (Q) to 20 movies (Q1). The reason for this is that as price falls Jack can afford to go to the movies more often on his income, he will now switch away from other activities that are relatively more expensive (substitutes) such as ten-pin bowling or eating at restaurants.

A complementary good is a good that Jack uses in conjunction with going to the movies. Jack may decide to buy popcorn or sweets to eat while he watches the movie. A flow-on effect is that Jack may decide to convince his friends to come to the movies with him.