

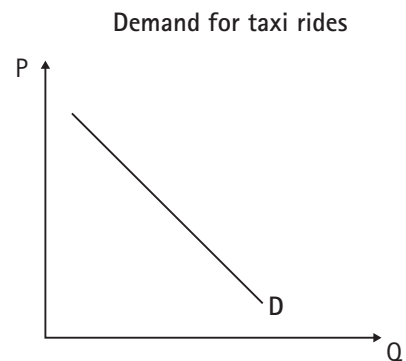
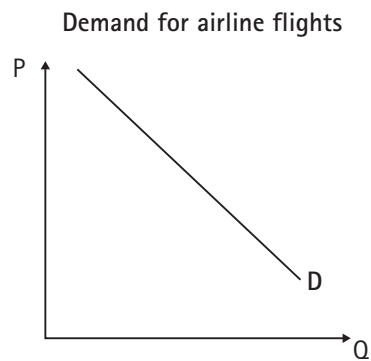
eLearneconomics: Changes in demand (1)

Student response

With increased competition, the price of airline flights to various domestic destinations around the country has fallen. This has had an impact on taxi rides.

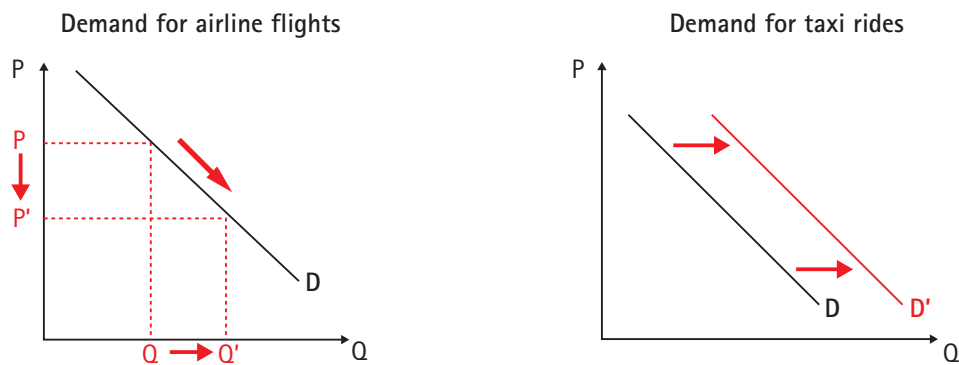
On the graphs below, discuss the extract above. In your answer you should:

- explain the relationship between domestic airline flights and taxi rides
- show the changes in the sketch diagrams below
- explain several flow-on effects the change in demand for flights and taxi rides will have for a consumer.

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

eLearneconomics: Changes in demand (1a)

Solution



Airline flight and taxi rides are complements because they are used in conjunction with each other.

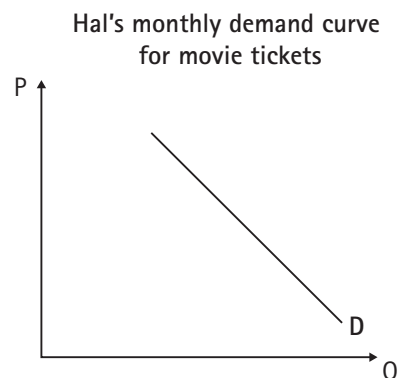
As the price of airline flights decreases (shown as P to P') the quantity demanded increases (shown as Q to Q'), ceteris paribus. The quantity demanded increases because consumers can afford more OR they are more willing and able to travel. The demand for taxi rides will increase, this is shown as the demand curve shifting (outward from D to D') as at each and every price there will be an increase in quantity demanded. Consumers that travel will require a taxi to get around the location/destination they travel to.

A possible flow-on effect for consumers is that they may enjoy the destination that they travel to and decide to go there again or substitute international travel with domestic travel. The consumers may decide to join the airline's loyalty scheme to take advantage of any offers/discounts that these may have.

Student uses the sketch diagrams to show the appropriate changes and explains the changes in the context of complementary goods. Explain possible flow-on effects.

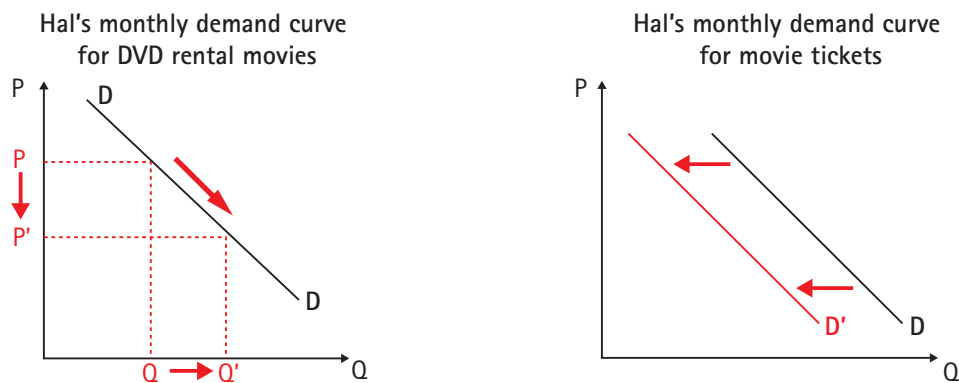
Student response _____

- explain the term that describes the relationship between movie tickets and DVD rentals
- fully label the graphs provided to show the changes and refer to them in your explanation
- explain several flow-on effects this change in demand may have for Hal.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

eLearneconomics: Changes in demand (2a)

Solution



Movie tickets and DVD rentals are substitutes because they can be used in place of each other.

As the price of DVD rentals falls, shown as the change in price from P to P' , the quantity demanded by Hal increases, shown as the change from Q to Q' . Hal will buy more DVD rentals because he can afford more OR he is more willing and able to buy DVD rentals. Hal's demand for tickets to the movies will decrease, this is shown by the demand curve shifting inwards (to the left) because at each and every price there will be a decrease in quantity demanded. Hal's demand for movie tickets will decrease (as shown by the change from D to D') because they are now relatively more expensive when compared to DVD movie rentals (or DVD movie rentals are relatively cheaper).

Several flow-on effects for Hal are that he might decide to buy a bigger TV screen (a complement) to watch the movies on or install a better sound system. Hal might also decide to buy more takeaway food to enjoy while he watches DVD movie rentals at home.

Explains the concept of substitutes in the context of using the graphs and correctly uses the terms 'quantity demanded' and 'demand'. Refers to the graphs drawn. Flow-on effects are explained.