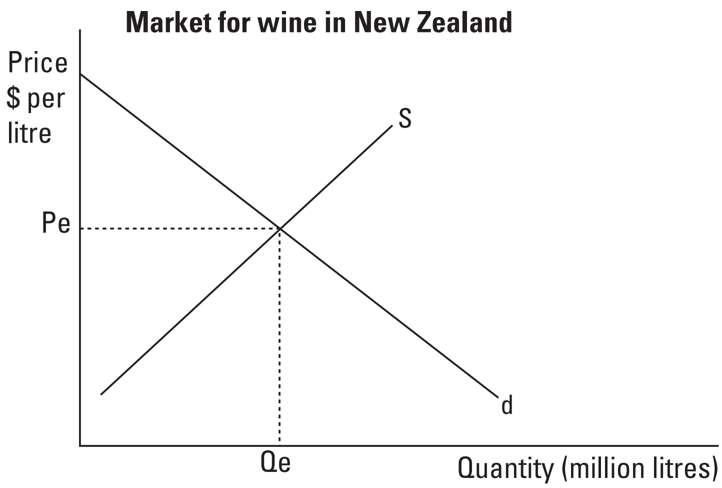
eLearneconomics: Market equilibrium – changes in price/output (1)

Student response ______________________________

(a) The number of wineries and land used by wineries has increased significantly over the past two decades. Draw and label a new market supply curve to show this effect. Label the new equilibrium price and quantity, P1 and Q1 respectively.



(b) (i) State the situation that would exist in the market if price remained at the original equilibrium Pe.

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(ii) Explain the market forces that result in the new equilibrium price and quantity, at P1 and Q1.

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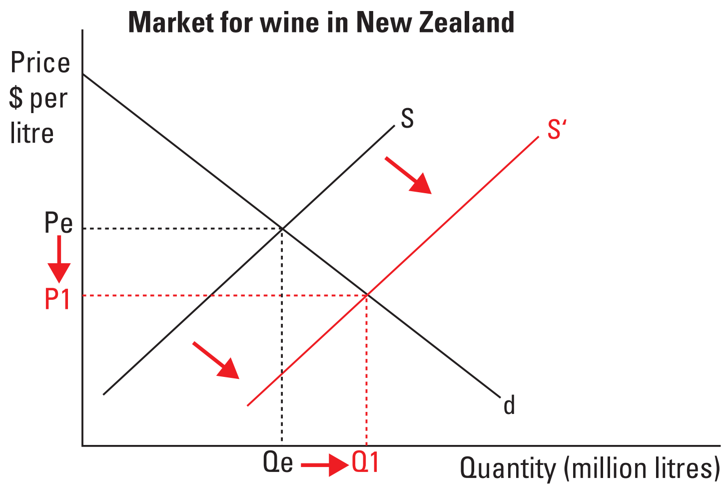
(c) Complete the table.

Possible cause of a price rise in the market for wine in New Zealand	
Demand factor	Supply factor

eLearneconomics: Market equilibrium – changes in price/output (1a)

Solution

(a) The number of wineries and land used by wineries has increased significantly over the past two decades. Draw and label a new market supply curve to show this effect. Label the new equilibrium price and quantity, P1 and Q1 respectively.



(b) (i) State the situation that would exist in the market if price remained at the original equilibrium Pe.

Surplus or excess supply.

(ii) Explain the market forces that result in the new equilibrium price and quantity, at P1 and Q1.

At the original price Pe there is a surplus. Producers will lower price to P1 to get rid of excess wine. As price falls to P1 the quantity demanded by consumers increases. Equilibrium is restored as quantity demanded equals quantity supplied.

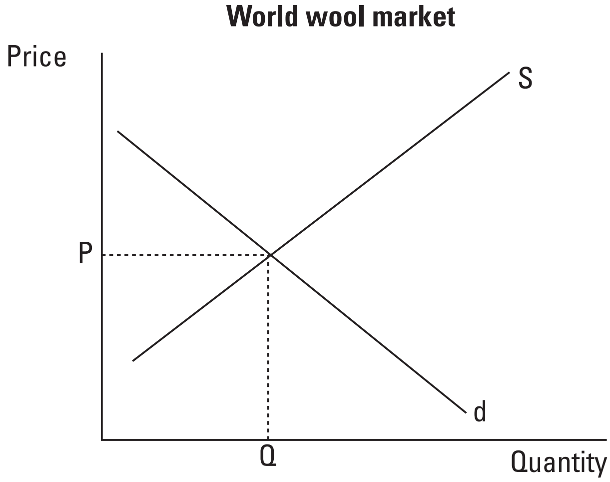
(c) Complete the table.

Possible cause of a price rise in the market for wine in New Zealand	
Demand factor	**Supply factor**
increase in disposable incomes	adverse growing season
decrease in direct tax	increase in costs of production
an increase in the price of a substitute	a fall in workers' productivity
a fall in the price of a complement	an increase in indirect tax

eLearneconomics: Market equilibrium – changes in price/output (2)

Student response ______________________________

Economic growth in countries like Brazil, Russia, India and China has resulted in an increase in the price of wool.



(a) Illustrate the effect of increased demand for wool on the world market. Label the new equilibrium price and quantity as P1 and Q1 respectively.

(b) (i) State the situation that would exist in the market if the price remained at the original equilibrium P.

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(ii) Explain the market forces that result in the new equilibrium price and quantity, at P1 and Q1.

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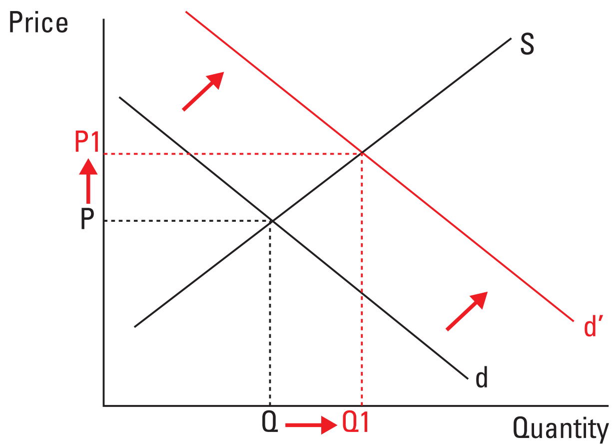
eLearneconomics: Market equilibrium – changes in price/output (2a)

Solution

Economic growth in countries like Brazil, Russia, India and China has resulted in an increase in the price of wool.

World wool market



(a) Illustrate the effect of increased demand for wool on the world market. Label the new equilibrium price and quantity as P1 and Q1 respectively.

(b) (i) State the situation that would exist in the market if the price remained at the original equilibrium P.

Shortage or excess demand

(ii) Explain the market forces that result in the new equilibrium price and quantity, at P1 and Q1.

The increase in demand creates excess demand or a shortage at the original equilibrium P. Consumers will bid prices up to price P1. The increase in price to P1 causes an increase in quantity supplied to Q1. Equilibrium is restored at P1 because quantity demanded equals quantity supplied.

eLearneconomics: Market equilibrium – changes in price/output (3)

Student response

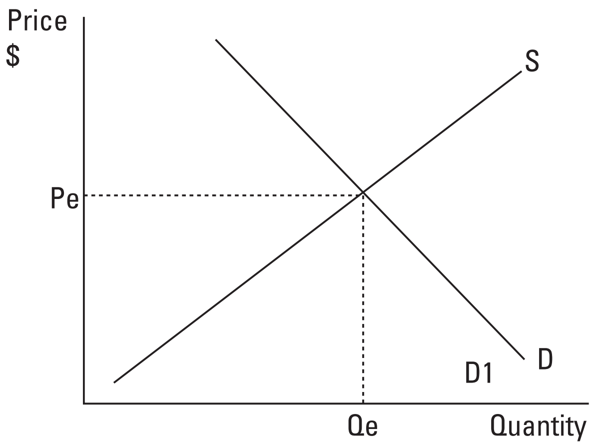
Unions get a wage rise	Consumer confidence at an all-time low	New big screen TV price predicted to rise

Explain the reason for big screen TVs increasing in price.

In your answer you should:

- Illustrate the effects of the events described in the resource material. Label the diagram fully and show the new equilibrium price as P1 and quantity as Q1.
- Explain any curve shifts you made AND the change in equilibrium price.

Market for big screen TVs



eLearneconomics: Market equilibrium – changes in price/output (3a)

Solution

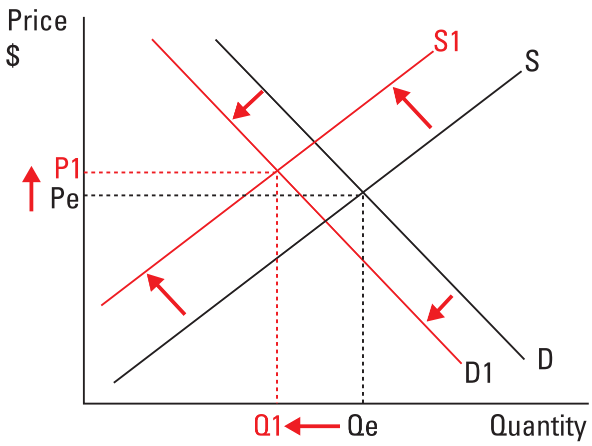
Unions get a wage rise	Consumer confidence at an all-time low	New big screen TV price predicted to rise

Explain the reason for big screen TVs increasing in price.

In your answer you should:

- Illustrate the effects of the events described in the resource material. Label the diagram fully and show the new equilibrium price as P1 and quantity as Q1.
- Explain any curve shifts you made AND the change in equilibrium price.

Market for big screen TVs



S1 shifted left
D1 shifted left
P1 higher than Pe
Q1 labelled
Direction arrows

Unions getting a wage rise will increase the costs of production for firms and will decrease supply, because it will be less profitable for firms to sell big screen TVs at Pe. The fall in consumer confidence will result in less spending on luxuries that make life more enjoyable or comfortable, such as big screen TVs, so demand will decrease (i.e. at each and every price there will be a decrease in quantity demanded). The price of big screen TVs will rise because the increase in supply (S1) is greater than the decrease in demand (D1). Overall these changes will create excess demand or a shortage at the original equilibrium Pe. Consumers will bid the price up from Pe to P1. The equilibrium will be restored at P1 where the quantity demanded equals the quantity supplied.