AS business

Getting on top of Demand and Supply analysis at AS level

DEMAND AND SUPPLY

This area of the specification has been problematic for a significant proportion of candidates over many past papers. Difficulties have arisen in two key areas:

* **Inaccurate drawing of diagrams**. This manifests itself in carelessly drawn lines (where a ruler is essential), incorrect or missing labelling on both the demand and supply curves and the axes and shifting the curves in the wrong direction.
* **Poor explanation of any changes made to diagrams**. Candidates are often unable to accurately explain the impact of any changes undertaken and the impact resulting in both price and quantity demanded and supplied.

The following exercise gives an opportunity to try and resolve these issues and provide a systematic approach to tackling questions on this area of the specification. It is best utilised at the conclusion of the topic to test understanding and to emphasise the importance of the need for clarity and accuracy when combining diagrams and text.

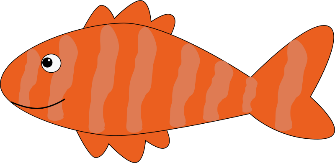
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| Read the following scenarios and undertake the tasks required in relation to each ‘market’ considered.  Restrictions on the landing of cod by trawlers in the North Sea have wide reaching implications.  As a result of European Union legislation the landing of cod by trawlers fishing in the North Sea has caused the amount of cod available in the UK market to be reduced by almost 40%. |

1. Adapt the diagram below to take into account the impact on the market for cod in the UK. Fully explain these changes and indicate the impact on both price and quantity demanded and supplied.

The Market for Cod in UK 2014

Price (£) (Kg)

D S



P

0 Q Quantity demanded and supplied

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2. Adapt the diagram below to take into account the impact on the market for POLLACK in the UK as a result of the changes in the market for cod. Fully explain these changes and indicate the impact on both price and quantity demanded and supplied.

The Market for Pollack in UK 2014

Price (£) (Kg)

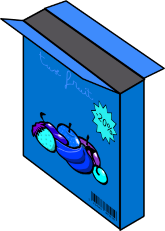
D S

…………P

0 Q Quantity demanded and supplied

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3. Adapt the diagram below to take into account the impact on the market for Breadcrumbs in the UK as a result of the changes in the market for cod. Fully explain these changes and indicate the impact on both price and quantity demanded and supplied.

The Market for Breadcrumbs in UK 2014

Price (£) (Kg)

D S

P

0 Q Quantity demanded and supplied

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4. Adapt the diagram below to take into account the impact on the market for Cod Liver Oil in the UK as a result of the changes in the market for cod. Fully explain these changes and indicate the impact on both price and quantity demanded and supplied.

The Market for Cod Liver Oil in UK 2014

Price (£) (Ltr)

D S



P

0 Q Quantity demanded and supplied

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DEMAND AND SUPPLY

1. The Market for Cod in UK 2014

Price (£) (Kg)

D S1 S

P1

P

0 Q1 Q Quantity demanded and supplied

As a result of the EU legislation less cod will be landed and therefore less cod being supplied at each and every price. This is shown by a SHIFT to the left of the supply curve from S to S1. A NEW MARKET EQUILIBRIUM is established where D cuts S1. The price of cod per kilo rises to P1 and the quantity demanded and supplied in the UK market falls to Q1.

2. The Market for Pollack in UK 2014

Price (£) (Kg)

D D1 S

P1

P

0 Q Q1 Quantity demanded and supplied

As the price of cod has risen, consumers may look for alternatives. Pollack is a close SUBSTITUTE for cod and therefore the demand for Pollack is likely to increase. This results in a SHIFT in the demand curve to the right creating a new market equilibrium price (P1) where the new demand curve (D1) cuts the original supply curve (S). The price of Pollack has increased and the quantity demanded and supplied has increased to Q1.

3. The Market for Breadcrumbs in UK 2014

Price (£) (Kg)

D1 D S

P

P1

0 Q1 Q Quantity demanded and supplied

Breadcrumbs and Cod are COMPLEMENTARY goods. Therefore, if less cod is being consumed, less breadcrumbs are likely to be consumed. This would result in a decrease in the demand for breadcrumbs, causing a SHIFT to the left from D to D1. A new equilibrium price is established where D1 cuts the original supply curve (S). The price for breadcrumbs has fallen, along with the quantity demanded and supplied. (It is worth remembering that consumers who are now consuming Pollack may well use breadcrumbs when cooking their fish, so the demand may not be significantly lowered. However, not all consumers will substitute Pollack for Cod and may purchase meat, chicken or some other product and therefore not require breadcrumbs.)

4. The Market for Cod Liver Oil in UK 2014

Price (£) (Ltr)

D S1 S

P1

P

0 Q1 Q Quantity demanded and supplied

Cod and cod liver oil are in JOINT SUPPLY. Therefore, as less cod is available then there will be a decrease in supply of cod liver oil. This will cause a SHIFT in supply of cod liver oil from S to S1. A new equilibrium price is established at P1. Therefore there will be rise in the price of cod liver oil and a fall in the quantity demanded and supplied.