

Learning activity 3

True/False answers

1. The determinants of demand include a range of factors, such as the price of the product, the prices of other products and the income of households.

1. True
2. False

2. If the demand curve for good B shifts if there is a change in the price of good A, good B can be either a complement or a substitute of good A.

1. True
2. False

3. An upward movement along a given demand curve is referred to as a decrease in quantity demanded.

1. True
2. False

4. If A and B are complements, a fall in the price of A will lead to an increase in the demand for B, that is, the demand curve for B will shift to the right, *ceteris paribus*.

1. True
2. False

5. An increase in the income of households is one of the possible causes of a rightward shift of a demand curve.

1. True
2. False

6. Supply refers to the quantities of a good or service that producers plan to sell at different prices.

1. True
2. False

7. A supply curve is an illustration of the quantities supplied at different prices, on the assumption that all other factors that can influence the quantity supplied remain unchanged.

1. True
2. False

8. An increase in the price of any of the factors of production will result in an upward (leftward) shift of the supply curve.

1. True
2. False

9. In their supply decisions, producers take account of the prices of all the alternative products they can produce.

1. True
2. False

10. An increase in the price of potatoes will lead to an increase in the quantity of potatoes supplied, *ceteris paribus*.

1. True
2. False

11. A market can only be in equilibrium if demand is equal to supply.

1. True
2. False

A market is in equilibrium at the price where quantity demanded and quantity supplied are equal.

12. A market can only be in equilibrium if the quantity demanded is equal to the quantity supplied.

1. True
2. False

13. At any price above the equilibrium price, there will be an excess demand for the good in question.

1. True
2. False

At a price higher than the equilibrium price there will be excess supply.

14. Excess demand for a good will put downward pressure on the price of the good.
1. True
 2. False
- Excess demand for a good will put upward pressure on the price of the good.
15. If the price of television sets is lower than the equilibrium price, there will be an excess demand for television sets.
1. True
 2. False

Review answers

1. The law of demand only applies when the price of other products **remain unchanged**.
2. The relationship between the quantity demanded and price is called a demand schedule and can be represented by means of a **demand curve**.
3. An increase in income will result in a movement **(of)** the demand curve.
4. The supply curve slopes **(upwards)** from left to right.
5. A change in the price of a product will result in a **(movement along)** the demand curve.
6. A change in the cost structure of a firm will be reflected in a **movement** of the supply curve.
7. Consider the market for coffee in Utopia. For each of the following statements, explain whether it could be illustrated by a movement along the demand curve or by a shift of the demand curve. If the latter, would the curve shift to the left or to the right?
 - 7.1. The price of tea, a substitute for coffee, increases.
 - 7.2. The price of coffee decreases because of a large increase in coffee bean harvesting.
 - 7.3. The average household income in Utopia increases.
 - 7.4. The price of coffee in the domestic market increases because farmers want to export as many coffee beans as possible.
 - 7.5. The media reports widely on the medical advantages of coffee.
 - 7.1. Shift of the demand curve to the right
 - 7.2. Movement along the demand curve
 - 7.3. Shift of the demand curve to the right

7.4. Movement along the demand curve

7.5. Shift of the demand curve to the right

8. Consider the demand for CDs in South Africa. For each of the following statements, explain whether it could be illustrated by a movement along the demand curve or by a shift of the demand curve. If the latter, would the curve shift to the left or to the right?

8.1 Due to low-cost Chinese imports, the price of CD players decreases sharply.

8.2 People decide to listen to CDs rather than poor-quality tapes.

8.3 Tapes, a substitute for CDs, become cheaper.

8.4 The price of CDs decreases due to improved production techniques.

8.1. Shift of the demand curve to the right

8.2. Shift of the demand curve to the right

8.3. Shift of the demand curve to the left

8.4. Movement along the demand curve

- 9 Consider the supply of cotton in Louisiana. For each of the following statements, explain whether it could be illustrated by a movement along the supply curve or by a shift of the supply curve. If the latter, would the curve shift to the left or to the right?

9.1. A severe drought hits the cotton-producing areas in the Southern regions of the United States.

9.2. Genetically modified seeds allow farmers to increase the production of cotton greatly.

9.3. The government imposes minimum wage legislation of agricultural labour in Louisiana, which results in the average wage of cotton farm workers to increase by 60%.

9.1. Shift of the supply curve to the left

9.2. Shift of the supply curve to the right

9.3. Shift of the demand curve to the left