

Answers to Learning Activity: Learning Unit 4

True/False answers

1. If the demand for watermelons were to increase, there would be a decrease in the price of watermelons, *ceteris paribus*.

1. True
2. False

2. An increase in the income of households will lead to an increase in the price of meat, *ceteris paribus*.

1. True
2. False

3. If the supply of oranges decreases, there will be an increase in the price of oranges, *ceteris paribus*.

1. True
2. False

4. An increase in the wages of workers in the clothing industry will lead to an increase in the price of clothing, *ceteris paribus*.

1. True
2. False

5. An increase in the productivity of workers in the motorcar industry will lead to a fall in the price of new motor vehicles, *ceteris paribus*.

1. True
2. False

6. If the supply of peaches were to increase and the demand thereof were to decrease simultaneously, there would be a decrease in the price of peaches but the direction of the change in the equilibrium quantity of peaches would be impossible to predict accurately.

1. True
2. False

7. If the supply and demand of bananas were to decrease simultaneously, both the equilibrium price of bananas and the equilibrium quantity would definitely decrease simultaneously.
1. True
 2. False
8. A lower milk price (complement for tea) will shift the demand curve for tea to the left.
1. True
 2. False
9. A higher coffee price (substitute for tea) will shift the demand curve for tea to the right.
1. True
 2. False
10. A lower coffee price (substitute for tea) will shift the demand curve for tea to the right.
1. True
 2. False

Review answers

1. At a price higher than the equilibrium price, supply will be **(greater)** than demand.
2. At a price lower than the equilibrium price, demand will be **(greater)** than supply.
3. If an excess demand exists in the market, the eagerness of buyers to buy the product will result in the price moving **upwards**.
4. Equilibrium implies that market forces are in **balance** with each other.
5. Consider the market for wheat. Using the standard notions of demand and supply, explain how the equilibrium price and quantity would change in each of the following situations, (*ceteris paribus*):
 - 5.1 Due to the new Tim Noakes diet, people decide to eat less bread (wheat is one of the main ingredients in bread).
 - 5.2 Farmers are growing more genetically modified wheat on a large scale, resulting in a significant rise in the wheat harvest.
 - 5.3 The price of wheat is expected to increase.

- 5.4 A large portion of the wheat harvest is destroyed by floods while average consumer income increases at the same time.
- 5.1 Decrease in demand and, as a result, equilibrium price and quantity will decrease.
- 5.2 Increase in supply and, as a result, equilibrium price will decrease while equilibrium quantity will increase.
- 5.3 Increase in demand and, as a result, both equilibrium price and quantity will increase.
- 5.4 Decrease in supply and increase in demand and as a result equilibrium price will increase while equilibrium quantity will be indeterminable.