

Modern Economics

Study Guide and Workbook

Fifth Edition

现代经济学 [英]

J. HARVEY

M. K. JOHNSON



English Language Book Society/Macmillan/World Publishing Corp

Modern Economics

Study Guide and Workbook

Fifth Edition

J. HARVEY BSc(Econ)

M. K. JOHNSON MA



English Language Book Society/Macmillan World Publishing Corp

Macmillan Education Ltd
Houndmills, Basingstoke, Hampshire RG21 2XS
and London

Companies and representatives throughout the world

© J. Harvey and M. K. Johnson 1969

© J. Harvey and Janet Johnson 1974, 1977, 1985,
1988

ISBN 7-5062-0934-9

Reprint authorized by Macmillan Publishers Ltd
Reprinted by World Publishing Corporation, Beijing, 1991
for sale in The People's Republic of China (excluding
Hong Kong, Macao and Taiwan Province of China)

All rights reserved. No reproduction, copy or
transmission of this publication may be made without
written permission.

No paragraph of this publication may be reproduced;
copied or transmitted save with written permission or
in accordance with the provisions of the Copyright
Act 1956 (as amended).

Any person who does any unauthorised act in
relation to this publication may be liable to criminal
prosecution and civil claims for damages.

First published 1969
Reprinted 1971 (twice), 1972, 1973
Second edition 1974
Reprinted 1976
Third edition 1977
Reprinted 1978, 1979, 1982, 1984
Fourth edition 1985
Reprinted 1987
Fifth edition 1989

ELBS edition first published 1987
ELBS edition of fifth edition 1989

ISBN 0 333 48621 8

Preface to the Fifth Edition

Economics cannot be learned parrot-fashion. It has to be thought about and understood. This Study Guide and Workbook has been compiled to encourage thinking and develop understanding. While it has been designed particularly to accompany *Modern Economics*, Fifth Edition, by J. Harvey (Macmillan), it can be used with similar texts. This fifth edition incorporates recent developments and updates facts.

Only after a quick reading of the relevant topics in a textbook should the student turn to the Study Guide. This will indicate the important points upon which he should concentrate his more detailed study. This same process of emphasising essentials is continued in the Workbook.

The Workbook comprises two main sections: (1) questions; (2) past examination questions set by the various professional bodies.

The questions have been designed: (a) to emphasise definitions and important points; (b) to test the student's understanding of the text; (c) to ensure that the student thinks about the ideas expounded; (d) to encourage the student to provide his own examples; (e) to show how economic theory is applicable to the practical decisions of the firm and the government. They consist of straightforward, short-answer questions, simple arithmetical exercises illustrating the application of principles, completion sentences, and 'true or false' and multiple choice questions. The latter are included to give practice in answering this type of question, but they have been kept few in number on account of the amount of space they require. Instructions are not repeated. The student is simply required to select the statement which seems to be correct or most nearly correct.

Past examination questions have been selected from recent professional examinations, but GCE 'A' level and ONC and HNC questions are on similar lines. The object has been to choose questions which provide a stimulating topic for class discussion. Thus stock questions, covered directly by the textbook and which, in various forms, are common to all the examining boards, have largely been omitted.

We would like to thank the Councils of the following bodies for permission to reproduce questions from past examinations:

	Code
The Chartered Institute of Bankers	IB
The London Chamber of Commerce and Industry	LCCI
The Institute of Housing	IH
The Royal Society of Arts	RSA
The Chartered Institute of Transport	CIT
The Royal Institution of Chartered Surveyors	RICS
The Chartered Institute of Building	CIB
The Incorporated Society of Valuers and Auctioneers	ISVA
The Incorporated Association of Architects and Surveyors	IAAS
The Chartered Association of Certified Accountants	CACA
The College of Estate Management (Diploma in Surveying)	CEM
The Society of Company and Commercial Accountants	SCCA
The Chartered Institute of Management Accountants	CIMA

Contents

Preface

	vii
1 What economics is about	1
2 Methods of allocating economic resources	4
3 How price is formed in the free market	7
4 Applications of demand and supply analysis	13
5 A further look at demand	17
6 The firm	23
7 The organisation and scale of production	27
8 The distribution of goods to the consumer	29
9 The location of production	31
10 Combining the factors of production	34
11 Deciding on the most profitable output	37
12 The supply curve of the industry under perfect competition	44
13 Monopoly	48
14 Imperfect competition	53
15 The marginal productivity theory of distribution	56
16 Labour and wages	59
17 Capital and interest	62
18 Land and rent	64
19 Entrepreneurship and profit	66
20 Money and the rate of interest	69
21 The money markets and the capital market	72
22 Joint-stock banks	75
23 The Bank of England	78
24 The national income	82
25 Full employment: a survey of the problem	86
26 Cyclical fluctuations in income and employment	88
27 Inflation	96
28 Regional and occupational unemployment	100
29 Government finance	102
30 The nature of international trade	105
31 The balance of payments	108
32 Foreign exchange rates	111
33 The correction of a balance-of-payments disequilibrium	114
34 The European Economic Community	117
35 The population of the UK	119
36 Growth, the balance of payments, inflation and unemployment	122
<i>Answers</i>	125

What Economics is About

1

Study guide

Economics is concerned with:

scarce resources → *alternative uses* → *choice to achieve given ends*.

It seeks to derive principles which will act as a guide when economic decisions have to be made.

This book concentrates mainly on one system of organising economic decision-making – the *price* system. By studying how this system works, we can see how it can be improved, understand current economic problems and predict the consequences of a particular economic decision. It is this application of economic principles to his professional work which should provide a major interest in the subject to the student.

The economist adopts scientific methods. This means that he must accept ends as given – he is concerned only with what *is*, not with what *ought* to be. There are only economic or non-economic methods of achieving those given ends.

Since resources are scarce, employing them in one use means that the opportunity of using them in some other use is lost. Thus we have a most important concept – *opportunity cost* – the cost of something in terms of alternatives forgone. As we shall see, this is *the* cost which lies at the root of economic decision-making; it need not be identical to money cost or even to the cost to an individual. The concept will be given greater precision in subsequent chapters.

Questions

1. What is the opportunity cost of a free good?
2. Why cannot the government solve the UK's economic problem simply by printing more money and distributing it to the population?
3. Which of the following are non-economic goods, and why?
 - (a) beer
 - (b) hedge-trimmings
 - (c) a second-hand car
 - (d) a derelict car
 - (e) sand in the Sahara
 - (f) sand in a builders' merchant's yard
 - (g) a GCE certificate
4. What, in the last resort, has a millionaire to economise in?
5. My income in 1979 was £3000; today it is £12 000. Over the same period the goods on which I spend my income have doubled in price. Use these facts to distinguish between 'money income' and 'real income' and to explain why my standard of living has not quadrupled over this period.
6. A man has an income of £120 per week. Assume that he spends all this income, buying two goods *X* and *Y* which cost £6 and £15 respectively per unit.
 - (a) Complete the following table, which shows some of the possible combinations of *X* and *Y* which he can purchase:

units of <i>X</i>	0	5	?	15	?
units of <i>Y</i>	?	?	4	?	0

- (b) Plot the points on a graph, units of X along the horizontal axis and units of Y up the vertical axis. What do you notice about the points?
- (c) Complete: 'From the graph, it can be seen that an extra unit of Y always costs the man ... units of X ; or, alternatively an extra unit of X always costs him ... units of Y .'
- (d) The costs referred to in (c) are money costs/opportunity costs/taxes. Which?
- (e) What would happen to the graph if the man's money income doubled while the prices of X and Y also doubled?
- (f) What can you say about the man's real income in (e), as distinct from his money income?
- (g) What happens to the graph if the man's money income doubles while the prices of X and Y remain the same?
- (h) In the original situation, where the man has £120 per week, the price of Y doubles. Draw the new graph, and state what has happened to the man's real income.
7. Which of the following statements are factual (positive) and which are value judgements (normative)?
- (a) The national income of the UK in 1985 was £264 019m.
- (b) The UK's national income increased from £50 139m in 1972 to £264 019m in 1985.
- (c) The UK's national income in 1985 should have been much higher than it was.
8. The following headings form the stages of the usual scientific approach to a problem. Rearrange them in the correct order.
- (a) form a hypothesis about the relationship of x to y .
- (b) make observations about two variables, x and y , including any simplifying assumptions;
- (c) use the hypothetical relationship to make predictions about the effect on y of a particular change in x ;
- (d) alter the hypothesis, if necessary, on the results of the experiment;
- (e) carry out experiments if possible, or collect more observations to verify or refute the prediction;
- (f) if the hypothesis appears to be the correct one, continue to make observations in case these prove the hypothesis to be wrong or insufficiently precise.

Multiple choice

9. The following are certain characteristics of human existence:
- i the wants of human beings are unlimited;
 - ii wants are of varying importance;
 - iii the means available for achieving those wants are limited;
 - iv the means can be used in different ways.

Which of these characteristics must be found together for an economic problem to arise?

- (a) i, iii and iv only;
- (b) i and iii only;
- (c) i, ii, iii and iv;
- (d) ii and iii only.
10. The following are possible characteristics of a good:
- i it is desirable;
 - ii the amount available is limited in relation to wants;
 - iii it can be physically transferred from one place to another;
 - iv it can be transferred from one person to another.

Which of these characteristics must be found together for it to be an 'economic good'?

- (a) i, ii, iii and iv;
- (b) i and ii only;
- (c) i, ii and iii only;
- (d) i, ii and iv only.

True or false?

11. (a) The economic problem arises because resources are scarce relative to our wants.
(b) An economic good is one which can only be obtained by giving something in exchange for it.
(c) All goods which are useful are economic goods.
(d) There is an economic problem in India but not in the USA.
(e) Scarcity in the UK is due to the inequality of incomes.
(f) The opportunity cost of having one good is the best alternative which has to be forgone.
(g) The nature of economic phenomena is such that the economist cannot pursue his studies by scientific methods.
(h) As a scientist, the economist is concerned solely with what *is*, not with what *ought* to be.

Past examination questions

1. i Give a definition of Economics.
ii Explain the term *opportunity costs*.
iii Explain why, in a mixed economy, the government might intervene. (LCCI)
2. Explain the basic concepts of the science of Economics. (CIMA)
3. (a) Define 'opportunity cost'.
(b) Illustrate with examples the practical importance of this concept with reference to the individual, the firm and the state. (CIMA)
4. (a) Explain the concept of *the optimum* in economics.
(b) Illustrate its use with examples. (CIMA)
5. Why may rational business decisions not have the expected outcome? (CIMA)
6. 'The basic economic problem is not so much the amount of production from scarce resources but rather how the resulting products are distributed.'

You are required to:

- (a) explain this statement;
(b) show how different economies have tried to resolve the problem;
(c) consider the difficulties they face in doing so. (CIMA)

Methods of Allocating Economic Resources

2

Study guide

Scarcity of resources means:

- (1) Not all the goods we want can be produced; we therefore have to decide *what goods?*
- (2) We have to use our limited resources as efficiently as possible; we therefore have to decide *how?*
- (3) There will be a limited amount of goods to go round amongst everybody who wants them; we therefore have to decide how they shall be distributed – *for whom?*

Broadly speaking, there are two methods by which these questions can be answered – the state or the price system. Although our study is largely concerned with the latter, it will show that on occasions interference by the state can improve efficiency. For example, private decision-making only takes into account private costs. But private costs may differ from opportunity cost because public costs should also be taken into account. For example, street-parking may be costless to the individual but incur a public cost in traffic congestion, accidents, etc. The state can allow for this by charging for parking, thereby bringing money costs into line with opportunity cost.

For these, and other reasons, all systems contain some state interference, but the actual degree to which private persons are allowed to make decisions is a political rather than an economic issue. Read through, but do not try to understand, the reasons for state interference at the end of the chapter. They are developed later.

You can treat the section on micro- and macro-economics similarly. The distinction between the two – which is basically one of method – will be much clearer at the end of the course. Remember, however, that micro- and macro-economics are inter-related. For instance, spending as a whole consists of all the various items of spending by individuals in the different markets.

Above all, note that economic theory is concerned with developing two basic models:

- (1) demand, supply and price in individual markets;
- (2) the circular flow of income.

If you keep this in mind, it will be easier for you to appreciate how all the different bits of theory fit together.

This chapter introduces the concept of a *flow* – a *rate* of movement over time. In contrast to this, we can have a *stock* – the quantity in existence at a *particular moment* of time. In economic analysis we work chiefly in flows. Consider a micro-economic example, such as the market for potatoes. There are two flows – the quantity demanded per week and the quantity supplied per week. As we shall see in Chapter 3, these two flows are brought into equilibrium by the price mechanism. If, for instance, consumers decided to buy more potatoes each week, the increase in the rate of the flow of potatoes off the market would have the immediate effect of reducing the stocks held by potato merchants. The result – a rise in price, as merchants react to prevent their stocks running out too fast.

Questions

1. Give the chief reasons for the following government intervention in the economy of the UK:
 - (a) rent control;
 - (b) appeals to trade unions to moderate wage demands;
 - (c) the tax on oil;
 - (d) restrictions on the export abroad of certain weapons;
 - (e) subsidies to agriculture;
 - (f) control of the sale of drugs and alcohol;

- (g) the prevention of the merger of Barclays and Lloyds Banks;
 - (h) the imposition of a capital gains tax.
2. Classify the following concepts as stocks or flows:
- (a) a man's income;
 - (b) a man's wealth;
 - (c) the UK's gold and foreign currency reserves;
 - (d) the national income of the UK;
 - (e) the UK's population;
 - (f) immigration into the UK and emigration from the UK.
3. Complete:
- (a) If the rate of flow of production equals the rate of flow of consumption, stocks will
 - (b) If the rate of flow of consumption the rate of flow of production, stocks will decrease.
 - (c) If the rate of flow of production the rate of flow consumption, stocks will increase.
4. If the UK's exports are less in value than her imports, what tends to happen to the gold and foreign currency reserves, given fixed exchange rates and no change in overseas borrowing or lending?
5. If the demand for mortgages exceeds the supply of funds coming into building societies, how do the latter tend to react?
6. Which of the following are micro-concepts, and which macro-?
- (a) the rent of an acre of land in Kent;
 - (b) the total income of landowners in the UK;
 - (c) the quantity of money in the UK;
 - (d) the quantity of money held by John Smith;
 - (e) the National Debt;
 - (f) the dividend paid by ICI to its ordinary shareholders.

Multiple choice

7. In a money-using Capitalist society, the economic problem of 'what goods' shall be produced is solved primarily by:
- (a) people advertising their wants;
 - (b) direction by the government;
 - (c) the pattern of consumers' spending;
 - (d) people producing directly to satisfy their own wants.
8. In a money-using Capitalist society, the economic problem of 'who shall receive the goods produced' is solved primarily by:
- (a) distributing income according to the needs of individual consumers;
 - (b) rationing by the government;
 - (c) consumers bidding up the prices of those goods they are anxious to buy, and refusing to bid for those goods they do not want;
 - (d) firms bidding for factor services whose owners receive an income to buy goods.

True or false?

9. (a) If a Central Planning committee decides what goods should be produced, society will always get the goods it wants.
- (b) How goods are to be produced is a technological problem, not an economic one.
- (c) The USA and the USSR do not differ in the fundamental economic problems they have to face, but they differ in the ways they go about solving them.
- (d) In a Capitalist system, the problem of what goods should be produced is decided entirely by businessmen.
- (e) Both profits and losses are important in the operation of the price system.
- (f) Intervention by the State in the free operation of the price system cannot be justified on the grounds of economic efficiency.

- (g) Economic planning by the government involves some sacrifice of individual freedom of choice.
- (h) Whereas a stock represents the quantity of X in existence at a particular moment of time, a flow represents the rate at which the stock of X is increasing or decreasing per unit of time.

Past examination questions

1. A Society might allocate its scarce resources either by operating a centrally planned economy or by means of the price mechanism. Compare the merits of each. Are all goods and services equally amenable to production and distribution by the price mechanism? (RICS)
2. (a) Explain briefly what you understand by the economic problem of *allocating scarce resources between competing uses*.
(b) Explain the function of prices in a market economy. (RSA)
3. What are the advantages and disadvantages of the free market system as a means of allocating resources? (CACA)
4. 'In the market economy, emphasis is laid on the freedom of the individual both as consumer and as owner of resources.'
 - i Explain this statement.
 - ii Discuss the major defects of the market economy. (LCCI)
5. (a) Define and explain the concept of consumer sovereignty.
(b) Does the existence of the large corporation affect the sovereignty of the consumer? Give reasons for your answer. (CACA)
6. Describe the main features of a mixed economy, identifying the advantages and disadvantages of such a system. (LCCI)
7. What sources of 'market failure' exist in a free market economy? What, if anything, might government do about them? (SCCA)

How Price is Formed in the Free Market

3

Study guide

This is one of the most important chapters in the book. Those sections dealing with demand, supply and price provide the basic tools for analysing all problems concerned with the allocation of resources between different uses. Look upon diagrams as an aid to analysis and a means of expressing ideas. Not until you use demand and supply diagrams instinctively when appropriate can you regard yourself as being fully competent in this branch of theory.

There are many different factors influencing the price of a good – price, income, tastes, the prices and productivity of factors producing it, etc. But they can all be aggregated under two headings: demand and supply. Curves are then drawn illustrating how demand and supply vary as *price* changes, all the other factors remaining unchanged. Taken separately, neither demand nor supply curves can tell you what the price will be in the market. They simply say: *if* the price is so much, *then* so much will be demanded or supplied.

Changes in factors other than price can be shown only by drawing a new demand or supply curve. You must then decide:

- (1) Is it a change in demand or a change in supply?
- (2) Does demand/supply decrease or increase at any given price? In the first case, the curve moves to the left; in the second, it moves to the right.

The importance of demand and supply analysis is in its application. Study carefully, therefore, the examples in this and the next chapter and think up some from your professional experience.

Questions

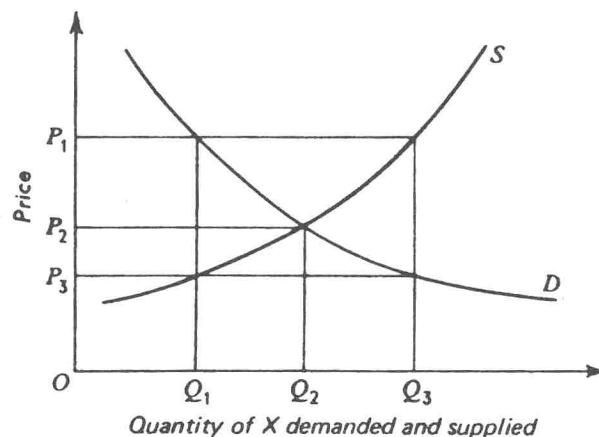
1. A newspaper costs 20p, a pound of bacon £2, and a bus ticket 80p.
 - (a) Express the value of each good in terms of the others.
 - (b) How many such 'prices' are there?
 - (c) How many prices are there when the value of each good is expressed in terms of money?
2. Wheat and bread are both widely demanded. Give three reasons why wheat has a world market, while bread has only a local market.
3. Classify the following markets as *imperfect* or *approximating to perfect*:
 - (a) The Stock Exchange,
 - (b) the second-hand book market,
 - (c) the foreign exchange market,
 - (d) the labour market,
 - (e) the retail paint market,
 - (f) the Discount Market,
 - (g) the commodity markets (wool, wheat, rubber, cotton, etc.)
4. Suggest three reasons for the imperfections of the markets in Question 3.
5. Why do improved communications help to remove market imperfections?

6. The following imaginary demand schedules for peas relate to three different income groups:

Price per lb. (pence)	Demand (thousand lb.)			Market
	Rich	Middle	Poor	
40	4	1	10	
36	6	2	10	
32	7	4	11	
28	8	8	14	
24	10	20	20	
20	11	39	100	
16	12	90	300	

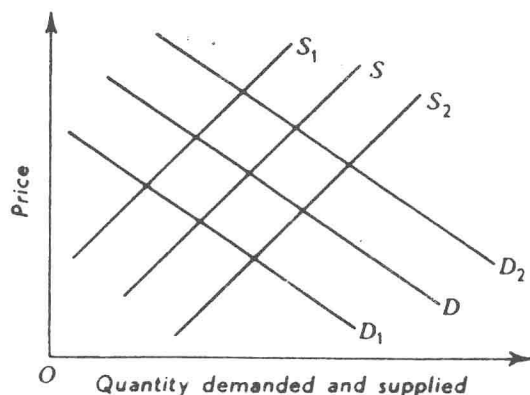
Complete the market-demand schedule.

- Why is it that a fall in the price of meat will have comparatively little effect on the demand for fish, whereas a fall in price of beef will have a far greater effect on the demand for mutton?
- Why does a crisis in foreign affairs often increase demand for gold? Give one recent example.
- What financial event often affects the demand for goods some time beforehand? Why?
- Give the reasons for rising costs of production since the war of (a) coal (b) houses in London.
- Name four goods which are supplied at a lower price in the autumn than in the spring.
- On the diagram:



- What is the equilibrium price?
 - What will be the effect on demand if the government fixes a maximum price of P_3 ?
 - What will be the effect on supply if the government fixes a maximum price of P_3 ?
 - What will be the effect on commodity X ?
- In Question 12, how could the government use the price system in order to obtain an equilibrium price of P_3 and an equilibrium quantity of Q_3 ? Illustrate with a diagram.
 - The demand and supply schedules for wheat in a free market are as follows:
- | | | | | | | | | | | |
|--------------------------|------|------|-----|-----|-----|-----|-----|-----|-----|-----|
| tonnes demanded per week | 425 | 500 | 550 | 600 | 650 | 675 | 700 | 725 | 750 | 800 |
| tonnes supplied per week | 1500 | 1000 | 750 | 600 | 500 | 400 | 300 | 225 | 150 | 100 |
| price per tonne (£) | 160 | 144 | 128 | 112 | 96 | 80 | 64 | 48 | 32 | 16 |
- What would be the equilibrium price?
 - Suppose when the market opened for the day, wheat sellers set their price at £144 per tonne. What would be the effect upon wheat stocks, and the resulting reaction of sellers?
 - Suppose that sellers instead began trading at £80 per tonne. What would be the effects in this case?
 - With reference to your answer to part (a), complete the following sentence: 'This is the equilibrium price, provided that

15. Suppose that demand in Question 14 now increases by 200 tonnes per week at all prices:
- What will be the effect upon wheat stocks if suppliers keep to the old equilibrium price?
 - What will tend to happen to the market price?
16. Given the increased demand of Question 15 as a permanent change (as far as farmers can foresee):
- What would you expect farmers' reactions to be when they are deciding what crops to sow for next year?
 - What effect is this likely to have on next year's wheat price?
17. On the diagram, D and S represent the original demand and supply curves for gas central heating appliances. Indicate the letter of the new curve which, other things being equal, would depict the following changes:



- Firms within the industry co-operate to promote a successful advertising campaign.
- A considerable fall in the price of electricity.
- An increase in the productivity of workers producing the appliances.
- A general increase in consumers' incomes.
- A considerable increase in the cost of raw materials.
- An improvement in the methods of production.
- A considerable fall in the price of gas.
- A rise in the prices of heating systems using other fuels.
- A succession of very cold winters.

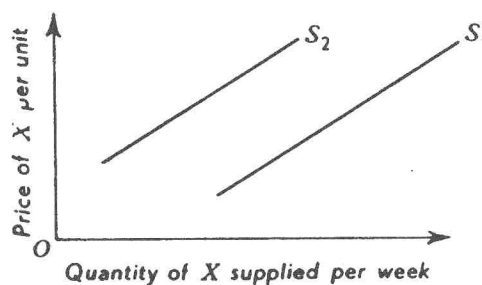
Multiple choice

18. Which of the following statements is correct or most nearly correct?
- A commodity will have value if it is wanted by somebody.
 - A commodity will have value only if it is scarce relative to demand.
 - The value of a commodity depends upon its price.
 - The value of a commodity is entirely dependent upon the demand for it.
19. Which of the following statements is correct or most nearly correct?
- An increase in the price of a commodity represents a fall in its value.
 - Value has nothing to do with price.
 - If the price of a commodity falls, its value relative to other goods does not alter.
 - The price of a good is its value measured in terms of money.
20. Which of the following statements is correct or most nearly correct?
- More of a commodity will usually be demanded at a higher price than at a lower price.
 - More of a commodity will usually be supplied at a higher price than at a lower price.
 - A change in the amount of a commodity supplied to the market is unlikely to affect its price.
 - The demand for a commodity will not change unless its price changes.
21. In the typical demand schedule, quantity demanded:
- varies directly with price;
 - varies proportionately with price;
 - varies inversely with price;
 - is independent of price.

22. The supply schedule of commodity X shows:

- (a) the quantity of X which will be supplied at any given price;
- (b) the total amount of X in existence at any time;
- (c) the amount of X which is bought at the equilibrium price;
- (d) the amount of X which will be put on the market at certain prices in a given period of time.

The following diagram applies to Questions 23, 24, 25. It shows supply curves for different periods of time, 1 and 2.



23. The curve S_1 shows that:

- (a) more X is put on the market as the price falls;
- (b) as less X is supplied, the price falls;
- (c) more X is put on the market as the price rises;
- (d) supply is independent of price.

24. The movement of the curve from S_1 to S_2 shows:

- (a) a decrease of supply at all relevant prices;
- (b) a contraction of supply;
- (c) supply greater in period 2 than in period 1;
- (d) a condition of inelastic supply.

25. The shift of the curve from S_1 to S_2 could be caused by:

- (a) a government subsidy to producers of X ;
- (b) an increase in the wage-rates paid to workers in industry X ;
- (c) improved techniques of production in X ;
- (d) a fall in the prices of raw materials used in manufacturing X .

26. Other things being equal, a decrease in the quantity supplied to the market at given prices leads to:

- i a higher price;
- ii a lower price;
- iii a contraction of demand;
- iv an expansion of demand.

Which of the above alternatives is consistent with the statement?

- (a) i and ii.
- (b) ii and iii.
- (c) i and iii.
- (d) i and iv.

27. An increase in the number of houses demanded at present prices is, other things being equal, likely to result from:

- i an increase in the number of marriages;
- ii a rise in real income;
- iii a considerable rise in the rate of interest charged to borrowers by building societies;
- iv a net fall in the population through emigration.

Which of the above alternatives is consistent with the statement?

- (a) i and ii.
- (b) i and iii;

- (c) i and iv;
- (d) ii and iv.

28. A stable equilibrium position is one in which:

- (a) there are only two forces influencing equilibrium;
- (b) there are never any departures from the equilibrium position;
- (c) any departure from the equilibrium position calls into play forces which tend to restore that **position**;
- (d) there are endless oscillations.

True or false?

29. (a) Economic markets are physical places where tangible goods are bought and sold.
- (b) The demand schedule is an 'if' schedule in the sense that it shows the quantities that would be demanded at various prices over a given period of time if other factors affecting demand are constant.
- (c) The effect on demand of a fall in price is shown by a shift in the demand curve to the left.
- (d) Other things being equal, if the price of beef falls, the demand for mutton is likely to decrease.
- (e) Other things being equal, if the price of petrol falls, the demand for tyres is likely to decrease.
- (f) A supply schedule shows that, under given conditions, the quantity supplied will be less at high prices, because at high prices it will not be possible to sell so much to buyers.
- (g) The equilibrium price is that price from which there will be no change provided the underlying conditions of demand and supply do not change.
- (h) An increase in the demand for houses is, other things being equal, likely to lead to an increase in bricklayers' earnings.
- (i) A supply schedule is meaningless unless referred to a given time period.

Past examination questions

1. (a) 'Alterations in the demand for a commodity caused by changes in its price are measured on the same demand schedule.' Explain this statement.
- (b) What factors, other than the price of the commodity, might cause changes in its demand? How would these changes be shown on a demand schedule diagram? (CIMA)
2. Why is it likely that the price of a commodity will be fixed at the point where demand equals supply? Cite some examples where this is not the case. (RICS)
3. (a) Explain briefly the difference between
 - i increases in supply and extensions in supply;
 - ii decreases in supply and contractions in supply.
- (b) Explain the effect of the following changes on the demand for chocolate.
 - i A fall in the price of chocolate.
 - ii A health campaign which claims that chocolate makes you fat.
 - iii A rise in the price of chocolate substitutes.
 - iv A fall in consumers' income.
 - v An increase in the wages of chocolate workers. (CACA)
4. (a) Outline the factors that affect the demand for building materials.
- (b) Discuss the problems involved in reconciling the requirements of a modern building materials industry with those of the industry it serves. (CIB)
5. By means of diagrams, explain the effect upon the equilibrium price of the commodity or service in the following situations:
 - i An improvement in the technique for producing electricity.
 - ii An agreement between several airlines to fix a minimum price for the route from London to Lagos (Nigeria).
 - iii A successful advertising campaign for a particular soap powder.
 - iv The imposition of a minimum wage for workers in shoe manufacturing.
 - v The entry of new firms into the production of computers. (LCCI)
6. (a) Outline the factors that affect the demand for both owner occupied and rented housing.

- (b) Describe the likely economic effects on the building industry of the alternative policies of renewal and rehabilitation of housing. (CIB)
7. Using diagrams, explain the effect of an increase in the price of timber on the price and quantity traded of window frames made of (a) wood, (b) metal. (ISVA)
8. (a) With the aid of diagrams describe the effect on the demand for apples of a (i) rise in the price of apples, (ii) fall in the price of oranges.
(b) How will a change in the (i) price of petrol, (ii) size of the population, (iii) level of income affect the demand for motor cars? (RSA)
9. In Country *X*, where prices are generally stable, house prices suddenly rise. What might cause such an increase in price? (SCCA)