

Please answer all the questions below.

Check Your

Understanding

1. What effect will each of the following factors have on the demand for product X? Will demand increase or decrease in each case?
 - a) As a result of an imaginative advertising campaign, product X becomes more fashionable.
 - b) The people who buy product X find their incomes falling.
 - c) A new product Y is invented and is marketed as a cheaper substitute for product X.
 - d) Consumers of product X hear that its price will rise over the following month.
2. What effect will each of the following factors have on the supply of product X? Will supply increase or decrease in each case?
 - a) Makers of product X introduce a labour-saving technology in their factory.
 - b) As the result of a protracted strike, makers of product X find they have to pay higher wages to their workers.
 - c) The market price that makers receive for product X rises.
 - d) The federal government reduces business taxes.
 - e) Several makers of product X go bankrupt, leaving fewer companies to manufacture this product.
3. Which of the four possibilities—a change in quantity demanded, a change in quantity supplied, a shift in demand, or a shift in supply—do each of the following market situations illustrate?
 - a) The price of DVDs falls, and consumers buy more of them.
 - b) New techniques in steel manufacturing lower the costs of producing steel.
 - c) A recession lowers the disposable incomes of North American consumers, affecting consumption of high-end consumer goods.
 - d) Gold mining companies try to extract more gold from their mines as world gold prices rise.