

Demand: Cause & Effect

Exercise 2-1 ANSWERS

Reference Page 40-47 Economics, Boyes

Several examples of cause and effect relating to the Law of Demand are written below. Decide which action(s) is the cause and which is the effect. Recall that a cause may produce several effects, or one effect may be the result of several causes. Rewrite the sentences as one, tying them together with a cause and effect clue word, i.e., *because, led to, produced, as a result of* and so on...

- 1) a. More CDs are demanded
b. The price of CD players is going down.

The price of CD players is going down and as a result more CD's are demanded.

- 2) a. A substitute for gasoline is available
b. The price of gasoline goes down

Because a substitute for gasoline is available, the price of gasoline goes down.

- 3) a. The price of bakery goods goes down
b. The price of sugar goes down
c. Customers buy more bakery goods

Because the price of sugar goes down, the price of baked goods goes down and, as a result, customers buy more baked goods.

What would happen to the demand for CD's in the following situations?

- 4) Minimum wage for high school students is raised to \$7.00 per hour

Demand would increase; a rise in income allows consumers to buy more at all prices.

- 5) Prices for CD's fall and sales of CD players surge

Demand would increase because CDs and players are complementary goods

- 6) Powerful advertisements make CDs much more appealing

Demand would increase because consumer tastes are stimulated by advertising.

- 7) What is the relationship between price and quantity demanded?

Quantity demanded varies inversely to price

- 8) How does the income effect change the quantity of a product demanded as the price of the product goes down?

Because of the fall in price, consumers have more income that may be spent on the purchase of more product.

9) What is the difference between a change in demand and a change in quantity demanded?

*A change in demand indicates a consumer's willingness to buy more/less at **all** price points; a change in quantity demanded indicates a consumer's willingness to purchase more product at a new price.*

10) Look at the newspaper tonight and find a story that relates to demand. How does the change in demand described in the article affect price?