

Markets: Demand and Supply

1. Identify the economic relationships between these goods.

Goods	Economic relationships
Biofuels and corn	
Cars and fuel	
Public transport and cars	
Crude oil and petrol	
Petrol and kerosene	

Key Question 2: What is the significance of demand and supply factors in influencing the equilibrium price and quantity traded for a product or service in the market?

2. Using appropriate and clearly explained illustrations, analyse the effects the four statements would have on the market (price and quantity) for:

(a) Condominiums (Private housing - apartments)

(i) an increase in wages of construction workers

(ii) a substantial decrease in price of public housing (government owned apartments)

(iii) the country is in economic recession

A large, empty rectangular box with a thin black border, intended for a student's response to the question about economic recession.

(iv) the government eases rules on foreign ownership of condominiums

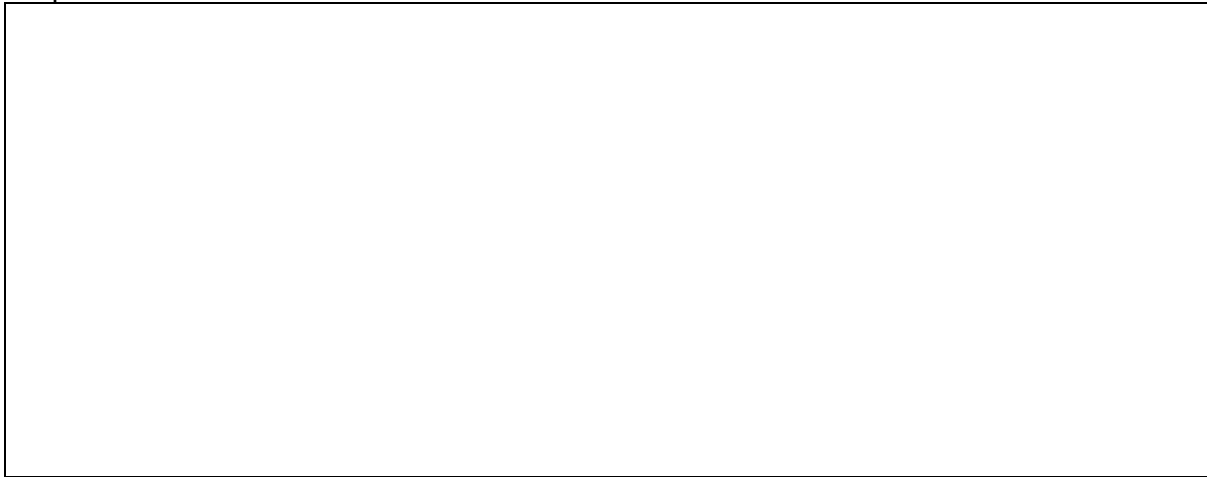
A large, empty rectangular box with a thin black border, intended for a student's response to the question about easing rules on foreign ownership of condominiums.

(b) Crude oil

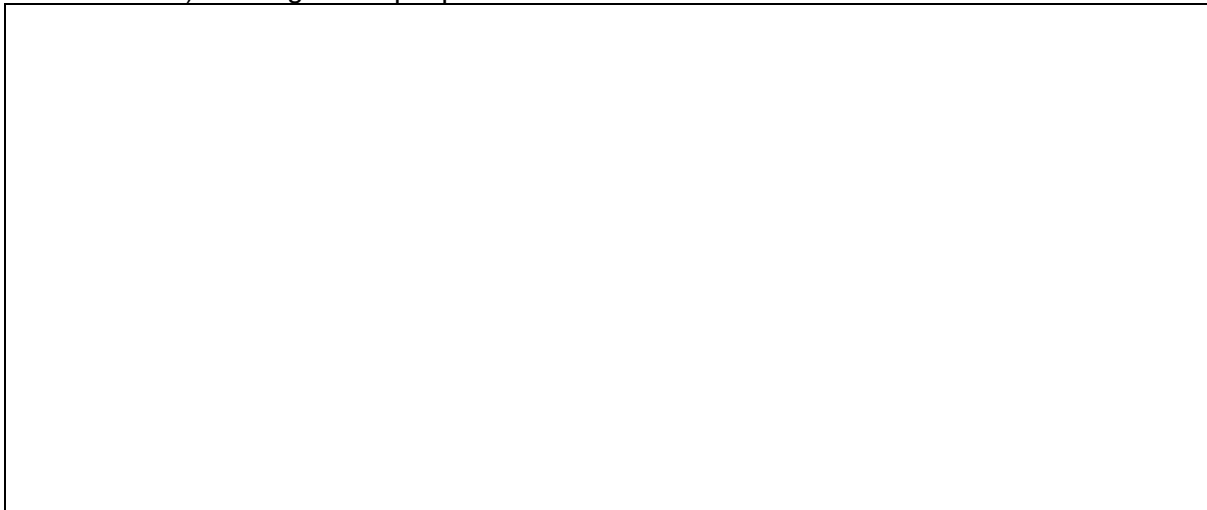
(i) At the beginning of the Persian Gulf War, both Iraqi and Kuwaiti oil was removed from the market.

A large, empty rectangular box with a thin black border, intended for a student's response to the question about oil removal during the Persian Gulf War.

(ii) Later, OPEC members especially Saudi Arabia and Venezuela increased their oil production.



(iii) Infrastructural development and growth of Emerging Economies (like Brazil, Russia, India and China) is rising at a rapid pace.



(iv) Many of the wells in the United States have been tapped out with vertical drilling. Producers have had to use more expensive horizontal drilling equipment. As a result, the costs of production are higher in the United States than in Saudi Arabia. (Show the U.S and Saudi oil markets)



3. How will the price of a good change when both demand and supply for the good increase at the same time?



4. Explain why prices rise when there are shortages and fall when there are surpluses.

5. Are prices determined by the market or the firms in a competitive market? Explain your answer.



1. *What determines price in the market?*
2. *How do economic agents use the decision making model to achieve the market equilibrium?*
3. *How does the price mechanism address the central problem of economics?*
4. *Other than the price mechanism, what are the other ways to allocate goods and resources?*
5. *Does the allocation of goods and resources via the price mechanism bring about maximum welfare for all economic agents?*

SECTION 2 – Case Studies

Mini Case Study

CSQ 1: The Price of Palladium

Palladium is an essential metal in the production of mobile telephones and computers. It is also used in anti-pollution systems for car exhausts and the chemical industry. In April 1998, it reached a then record price of \$417 an ounce. This made it more expensive than platinum, to which it is closely related, and gold. While either palladium or platinum can be used in car exhaust systems, platinum is important in jewellery production, while palladium is not. The following information highlights some aspects of the market for palladium in 1996 and 1997.

Diagram 1

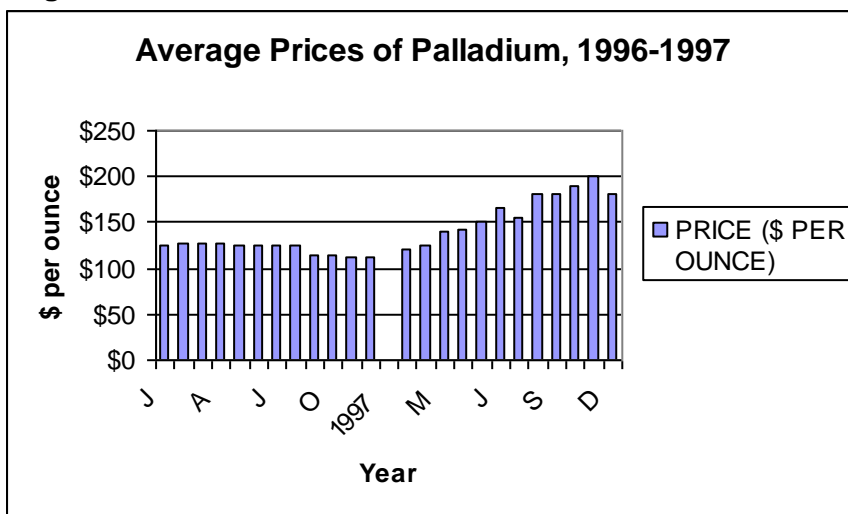


Table 1: Palladium Supply and Demand ('000 ounces)

	<u>1996</u>	<u>1997</u>
Supply	7,840	7,250
Demand	<u>6,150</u>	<u>7,460</u>
Movements in stocks	+1,690	-210

Table 2: Palladium Demand by Application ('000 ounces)

	<u>1996</u>	<u>1997</u>
Car Exhaust Systems	2,215	2,955
Dental	1,320	1,350
Electrical	2,020	2,510
Other	<u>595</u>	<u>645</u>
Total Demand	6,150	7,460

Table 3: Palladium Supply ('000 ounces)

	<u>1996</u>	<u>1997</u>
South Africa	1,690	1,810
Russia	5,600	4,800
North America	455	545
Others	<u>95</u>	<u>95</u>
Total Supply	7,840	7,250

Questions:

- (a) (i) Describe the main trends in the price of palladium during 1996 and 1997. [2]
- (ii) With the aid of a diagram, use the information in Table 1 to show how changes in supply and demand for the metal have influenced its price between 1996 and 1997. [4]
- (b) Using Tables 2 and 3, identify the main causes of change on the demand side and on the supply side and give a possible explanation in each case. [4]
- (c) Using economic concepts, analyse the relationship between palladium and platinum in their use in (i) car exhaust systems and (ii) jewellery. [4]
- (d) Discuss how you would expect buyers and sellers to react to the higher price of palladium. [6]