

# DEMAND



## Multiple choice

- 1 D
- 2 C
- 3 B
- 4 C
- 5 D

## Matching terms

As the price of a good increases, the quantity demanded will contract.	<b>law of demand</b>
All factors (apart from the one under analysis) remain constant.	<b>ceteris paribus assumption</b>
The quantities of a particular good or service that consumers are willing and able to purchase at various price levels, in a given period of time.	<b>demand schedule</b>
The percentage change in quantity demanded due to a change in price.	<b>price elasticity of demand</b>
A rise in price reduces the quantity demanded to zero.	<b>perfectly elastic demand</b>
A change in price has no effect on quantity demanded.	<b>perfectly inelastic demand</b>
A change in price has very little effect on quantity demanded.	<b>relatively inelastic demand</b>
A change in price has a very significant effect on demand for the good.	<b>relatively elastic demand</b>

# True or false

Select the alternative true or false that best answers the question. Place a tick in the space provided.

	True ✓	False ✓
1 A more equal distribution of income in Australia would shift the demand curve for luxury yachts to the left.	_____	✓ _____
2 Demand curves are always downward sloping.	_____	✓ _____
3 A contraction in the quantity of margarine demanded would occur if the price of butter fell.	_____	✓ _____
4 An increase in demand for beach dresses would occur if their price fell.	_____	✓ _____
5 If the level of income in Australia increased, the demand curves for most goods would shift to the right.	✓ _____	_____
6 If the demand for haircuts is price elastic, an increase in the price charged for haircuts will increase revenue for hairdressers.	_____	✓ _____
7 The demand curve for a good for which demand is perfectly inelastic is vertical.	✓ _____	_____
8 Toothpaste is likely have a low price elasticity of demand.	✓ _____	_____
9 A fridge would have a lower price elasticity of demand in the short-run, compared with the long-run.	_____	✓ _____
10 The law of demand is enforceable in a court of law.	_____	✓ _____

# Short answer questions

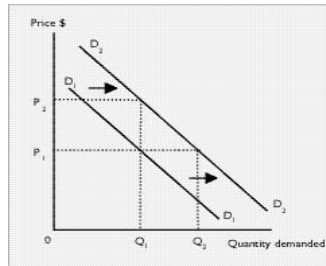
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Write or draw your answer in the space provided.

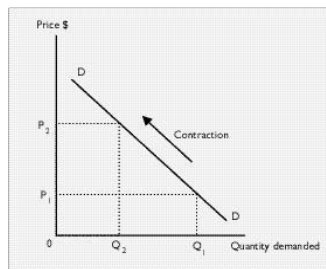
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## Question 1

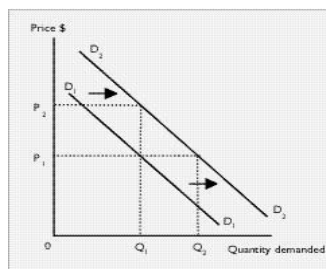
- a) Qantas conducts a successful marketing campaign



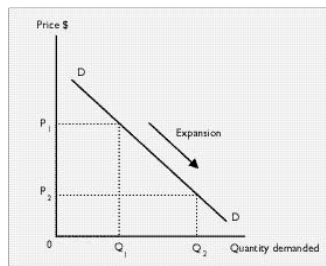
- b) A new tax is placed on all airline flights, increasing the price of tickets



- c) A statistical report is released indicating that Virgin Blue is a safer airline



- d) For the month of July, a 10% discount is offered on all Qantas flights to Hayman Island



## Question 2

Four factors that could increase demand for Coca Cola may include:

- increase in the price of Pepsi
- a successful advertising campaign
- a report issued claiming that consumption of Coca Cola increases life expectancy
- an increase in the good's popularity in the community
- an increase in the level of income in a community

## Question 3

- a) Price elasticity of demand refers to the responsiveness of the quantity of a good demanded to changes in the price.
- b) Total Revenue (TR) = Price times quantity = PQ  
P = 100, TR = 5000  
P = 60, TR = 5400  
As price falls, total revenue increases. Hence sandals are relatively elastic.
- c) The information on elasticity is useful to governments because it allows them to identify the impact and revenue of sales taxes on sandals. It allows firms to accurately predict changes in sales revenues that will occur as prices change, and allow them to find the price that will allow them to maximise their revenue.

## Question 4

- a) The good will be relatively elastic as a small percentage change in price will be a large amount in dollar terms, changing buyers preferences.
- b) The good will be relatively elastic. Any increase in price will encourage consumers to purchase the alternative.
- c) The good will be relatively inelastic as consumers will continue to purchase the good irrespective of price changes.

## Question 5

When a business increases the price of a good with a relatively inelastic demand, the total revenue of the firm will increase. Hence the government may set price ceilings on such goods to protect consumers from firms seeking to maximise profits.