## How prices are determined – GCSE Economics

**1.** No.1

Which of the following best describes the equilibrium price in a market?

**[1 mark]**

Does not explain Equilibrium

- **A** Where all consumers are satisfied → Not Demand = Supply
- **B** Where profit is maximised → Where MC = MR
- **C** Where quantity supplied equals quantity demanded
- **D** Where quantity supplied exceeds quantity demanded

No Equilibrium.

**2.** No.2

Which of the following could lead to a reduction in the quantity supplied of a product?

**[1 mark]**

- **A** A decrease in demand for the product
- **B** A decrease in the cost of making the product – leads to increase
- **C** An increase in the popularity of the product → Affects demand
- **D** An increase in the price of the product

Increases Supply

**3.** No.7

Which of the following is a reason for a firm having price elastic supply?

**[1 mark]**

**A** A high amount of spare capacity

**B** A low number of substitutes => Has effect on Price elasticity of demand.

**C** High consumer incomes => Affects demand.

**D** Low stocks of raw materials

Leads to inelastic Supply.

**4.** No.8

A 5% decrease in the price of newspapers leads to a 4% increase in the quantity demanded. What is the price elasticity of demand for newspapers?

**[1 mark]**

**A** –1.25

**B** –0.8

**C** +0.8

**D** +1.25

increase (+)

$$PED = \frac{4}{-5} = -0.8$$

Decrease (−)

**5.** No.9

Which of the following are most likely to be substitutes for each other?

**[1 mark]**

~~A~~ Books and tablet computers

B Cars and petrol => Complimentary

C Coffee and sugar -> Complimentary

D Torches and batteries

-> Complimentary.

**6.** No.10

**Table 1** shows the quantities of wood supplied and demanded at various prices.

**Table 1**

| Price (£ per tonne) | Quantity demanded (tonnes) | Quantity supplied (tonnes) |
|---|---|---|
| 25 | 150 | 50 |
| 50 | 125 | 75 |
| 75 | 100 | 100 |
| 100 | 75 | 125 |
| 125 | 50 | 150 |

What is the excess supply at a price of £100 per tonne?

**[1 mark]**

A 25 tonnes

~~B~~ 50 tonnes

C 75 tonnes

D 100 tonnes

[Supply - Demand]

125 - 75 = 50

**7.** No.15

**Figure 1 – Price elasticity of demand for two products**

| | |
|---|---|
| Loaf of bread | –0.2 |
| Car | –2.5 |

Using **Figure 1**, analyse possible reasons for the differences in price elasticity of demand for the two products.

**[6 marks]**

Price Elasticity is the responsiveness of demand due to change in price. A loaf of bread has inelastic demand (-0.2) of less than 1 because it is a necessity and people will buy it even when price changes. On the other hand cars are luxury and therefore will have price elastic demand. The buyers may not buy or will be sensitive

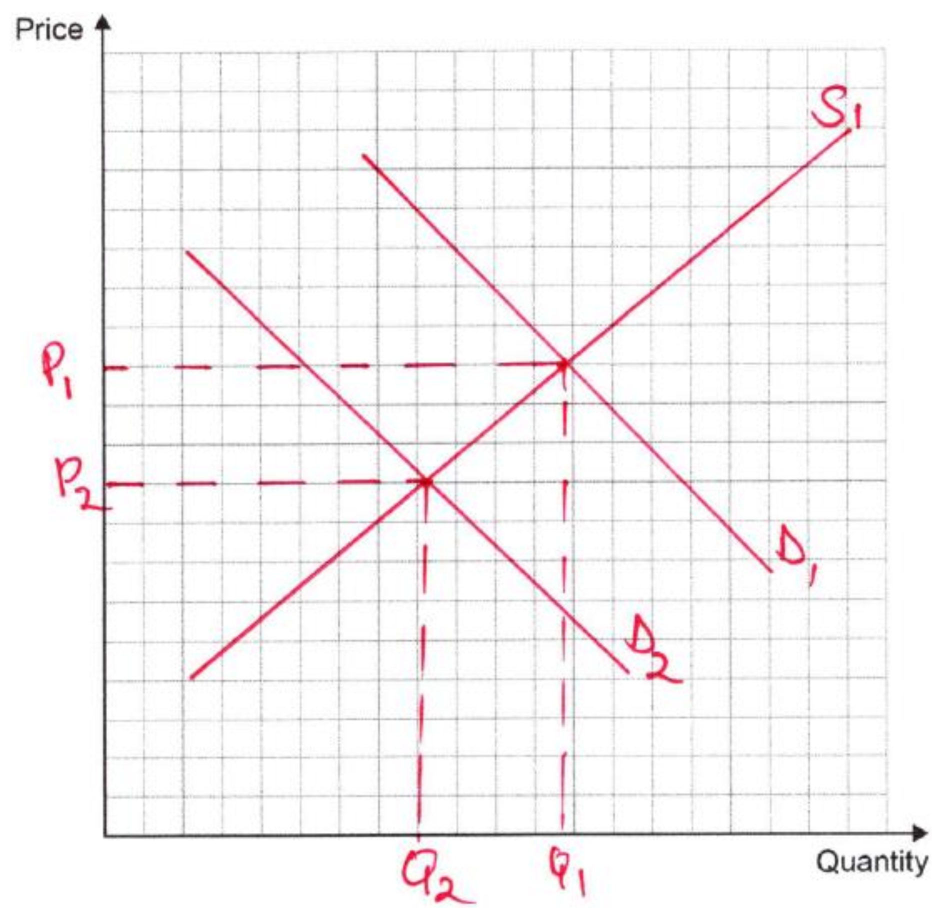
Extra space to their price changes. When the price go up the demand may decrease and vice versa. Additionally, proportion of income that is used to buy cars is a considerable amount hence demand will be price elastic.

**8.** No.20

Draw and label the effects of an increase in the price of petrol cars on the market for petrol.

**[3 marks]**

**Market for petrol**




⇒ Increase in Price of Petrol Cars leads to decrease in demand for the Cars hence decrease in demand for the Petrol.

⇒ A decrease in demand for Petrol Shifts the demand Curve to the left $D_1$ to $D_2$ hence Price of Petrol reduces from $P_1$ to $P_2$