

# Business Studies



## Bridging Tasks

### Supply and Demand

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## Demand Theory

Use the tutor2u website and the video below to complete the following tasks.

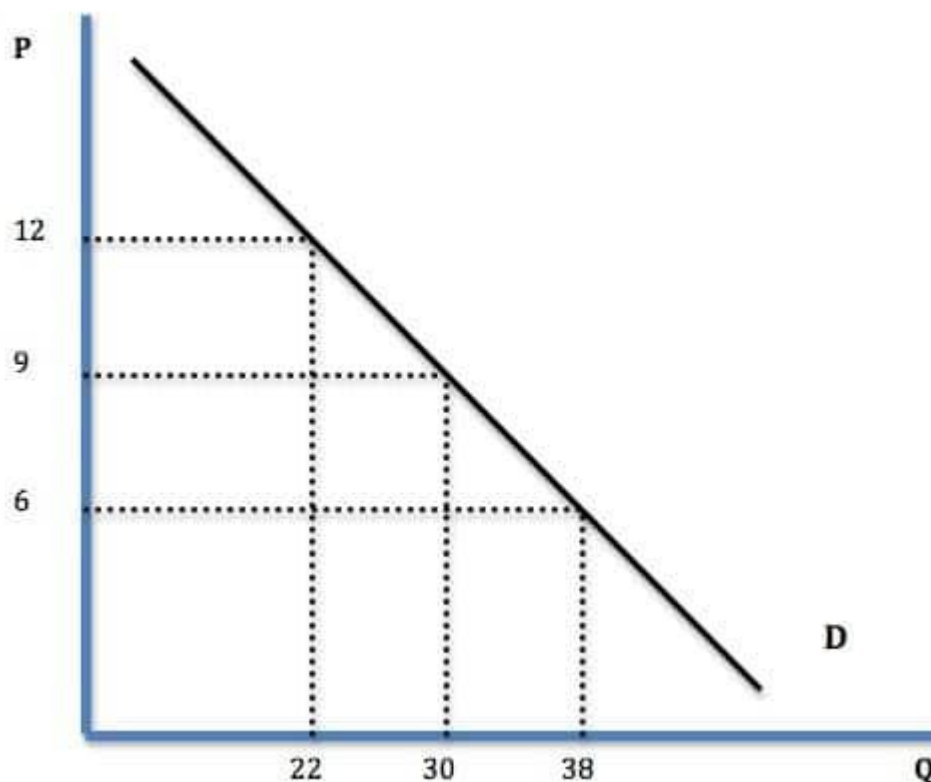
<https://www.youtube.com/watch?v=YuV9RRqahVY>

Demand is the amount that consumers are .....

The demand curve shows the relationship between the ..... at any given price over a period of time.

The law of demand states that as price increases..... and as price decreases.....

This is represented as a line (or curve) on a diagram.

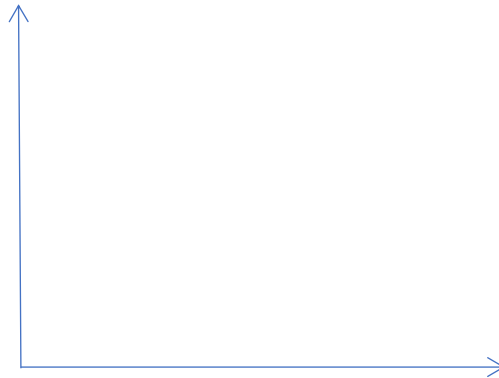


In the example above if the initial price was £9, demand is 30 units. Using this diagram, explain what is meant by a contraction and an extension in demand in the box below.

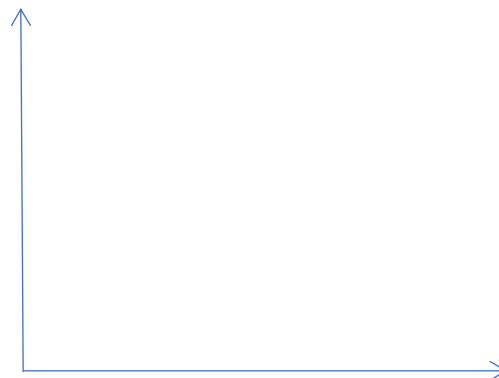
## Changes in Demand

Factors other than price changing can shift the demand curve. The demand curve can move to the left, known as an increase in demand, or to the right, known as a decrease in demand.

1. Draw and label the impact on Price and Quantity demanded of a shift to the left, i.e. a decrease in demand at all prices



2. Draw and label the impact on Price and Quantity demanded of a shift to the right, i.e. an increase in demand at all prices



Causes of these changes, are usually factors outside the business's control. These are also referred to as **external factors**. This is a term you will come across a lot in your study of business.

3. What external factors could cause a shift in demand?
  - **Income** – a rise in income, can cause consumers to have more money to spend, therefore causing them to demand more of some goods
  - 
  -

4. Sometimes demand for one product can affect the demand for another. Define and give examples of the following:

Type of demand	Definition	Example
Derived demand		
Joint demand		
Composite demand		

## Elasticity of Demand

For your course you need to understand to *what degree* changes in price, consumer incomes and the price of other goods, affect the demand for a specific product. You will not need to be able to calculate the elasticity, just understand the theory. (Be grateful for this!)

The demand for some goods, is very responsive to price, whereas for other goods changes in price do not affect the demand. This is known as the **Price elasticity of demand**, or **PED**. This video [here](#), will help you to understand the concept.

1. Complete the following table

PED	For a price increase, total revenue.....	For a price decrease, total revenue .....	Examples of goods that respond in this way
Elastic			
Inelastic			

Responsiveness to changes in consumer incomes is known as **Income elasticity of demand** or **YED**. This [VIDEO](#) can help to explain this topic.

2. Complete the following table

Type of good	Definition / type of elasticity	Impact of a RISE in consumer income	Examples of goods
Luxury			
Normal			
Inferior			

The final type of elasticity you need to understand is known as **Cross Elasticity of Demand** or **XED**. This is where a change in the price of one good, affects the quantity demanded of another. Watch this [VIDEO](#) and complete the table.

Type of good	Definition / type of elasticity	Impact of a RISE in the price of an alternative product	Examples of goods
Complementary			
Substitute			

## Application Exercise

When answering these, there may not be a simple answer. At this level you will need to consider more than just one factor.

1. Read this article: <https://www.bbc.co.uk/news/business-52508010>. Clearly the demand for cars has fallen due to the pandemic. What other markets could be affected by this fall in demand?
2. Using your knowledge and understanding, explain what has happened to demand for online shopping services, such as Amazon during the pandemic and why.
3. Many people have had or will have overseas holidays cancelled. Analyse how this could affect the demand for other goods and services.
4. Many staff have been furloughed or even lost their jobs. Analyse the impact of this on the demand for goods and services.