

Introduction to economics 4

We are going to look in more detail at the economic models that are an important part of price determination. These are **demand, supply** and **price equilibrium**.

State 4 key points about supply:

- _____
- _____
- _____
- _____

Price equilibrium is the price at which supply is equal to demand. On a graph it is, therefore, the point where the supply curve and the demand curve cross.

Watch this short YouTube video to learn about price equilibrium. You may want to download the note taker document here to support you whilst watching this clip.

YouTube <https://youtu.be/iIUx1EfTrBc>

Note taker <https://drive.google.com/open?id=1FNumhUpBmhtj8dl0KfMSlvAxK6Cq7ZRe>

Petrol prices have been affected by changes in both supply and demand leading to a lower equilibrium price. Draw a diagram to demonstrate this. Think through the steps logically.



Explain your diagram.

Write a list of all the factors that contributed to the fall in the price of petrol. Try to write your list in order, with the most significant factor at the top. Justify your rankings.

Factor	Justification of ranking

One factor affecting price is the **degree of competition** in the market. If there is a lot of competition power sways towards the consumer as they have greater choice. If there is no, or little, competition the power sways towards to supplier. With reference to the petrol market, backed by information from the article, <https://www.bbc.co.uk/news/business-52188448> , explain how the degree of competition in a market can affect price.

Microeconomics looks at the production of goods and services to satisfy needs and wants. This process involves 4 **factors of production**. The use of each factor attracts a reward.

- Land - rent
- Labour - wages
- Capital - interest
- Enterprise - profit

Do all these factors exist in a petrol station? Support with examples.

Land	Labour	Capital	Enterprise

If the reward of profit is taken away there is no longer an incentive for a business to operate. With reference to the article, <https://www.bbc.co.uk/news/business-52188448>, and factors of production, explain why petrol stations may close down?

In economics you will learn a lot of new terminology. In this worksheet, so far, you have been introduced to 4 key terms. Before moving on check that you understand these terms.

- Price equilibrium
- Market clearing
- Degree of competition
- Factors of production

You could now select a different industry e.g. video or music streaming, smart phones or a commodity such as gold and research the factors affecting price in that industry. Use diagrams and economic terms to explain your findings.