

. DEMAND AND SUPPLY

1. - Price of the commodity
 - Prices of the other related commodities
 - Future expectation of changes in prices
 - Government policy
2.
 - Decrease in cost of inputs
 - Improvement in technology
 - Fall in taxes
 - Increase in government subsidy
 - Future expectation of price increase
 - Favorable weather
4. (i) It is a given /inferior good
 - (ii) If the price is expected to fall further in future.
 - (iii) If the fall in price is as a result of fall in quality
 - (iv) If the commodity is getting out of fashion..
5. (i) Decrease in consumers income
 - (ii) Unfavourable changes in tastes fashions and preferences of consumers
 - (iii) Unfavourable government policies e.g. increase in taxation
 - (iv) Increase in price of compliments/decrease in price of the commodity
 - (v) Unfavourable terms of sale e.g. short credit periods and lack of discounts
 - (vi) Uneven/unfair distribution of income among consumers
 - (vii) Decrease in the size of the population
 - (viii) Unfavourable seasonal changes
6.
 - *Unfavourable weather*
 - *License in the cost of producing cabbage*

- Application of poor technology
- Increase competition from other substitutes
- A shift in the farmers priority to other things
- Unfavourable government policy like increase in subsidies etc. (4x1=4mks)

7.
 - Presence of close substitutes
 - Habit forming commodities
 - Durable products
 - Necessities
 - If the proportion of income spent on the good is small
 - If it is difficult for consumers to adjust in the short run

8.
 - Goods of ostentation
 - Inferior goods
 - Expectation of future shortages
 - Necessities
 - Habitual
 - Necessities
 - Expectation of further increases in prices

9.
 - Where goods are of ostentation/ luxurious goods
 - Incase of Gifted goods
 - Where goods are necessary
 - Where there is expectation of further increase in prices
 - Where goods are inferior in nature
 - Where goods are habitual
 - Where there is an expectation of future shortages

10. $C.E.D = \% \Delta Q_y$

$$\begin{aligned} & \% \Delta P_x \\ \% \Delta Q_y &= \left[\frac{-4000}{15000} \right] \% = -26.66 \\ \% \Delta P_x &= \left[\frac{10}{140} \right] \% = -7.14 \\ \text{C.E.D} &= \frac{-26.66}{-7.14} \\ &= 3.73 \end{aligned}$$

. DEMAND AND SUPPLY

1. -Price of other related products might have gone high

- Favourable government policies like subsidies
- Introduction of new advanced or appropriate technology
- When producer expects the price of the product to go low in future
- When natural factors have favoured production e.g. good rainfall
- When the goods that are produced seasonally have reached pt of supply on the market
- Entry of new firms in the industry

2. *Using well labeled diagram, explain how excess demand and excess supply can be*

Experienced in the market

-“Excess demand” means quantities demanded by customers are more than quantities that

suppliers are able to supply in the market.

- If price is put at P1, which is above equilibrium price, there would be excess supply in the

market. To clear the excess supply, sellers will be compelled to lower their prices

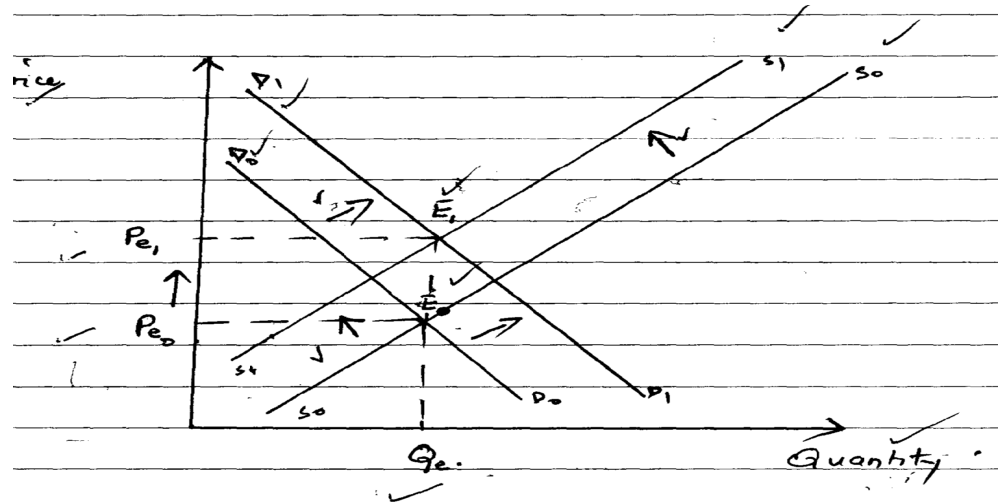
towards equilibrium.

- If the price is set at P2 which is below the equilibrium price, there would be excess demand.

The buyers would be forced to increase their prices towards the equilibrium price in order to

attract more supply

3. *Effects of an increase on demand and a proportionate decrease in supply on equilibrium price and equilibrium quantity*



Original equilibrium E_0

Original demand curve D_0D_0

Original supply curve S_0S_0

Original equilibrium price and quantity curve P_{e0} and Q_e

With an increase in demand, demand curve D_0D_0 shifts outwards to D_1D_1

Appropriate decrease in supply makes the supply curve S_0S_0 shift inwards

The new equilibrium position is at point E_1 where $S_1S_1 = D_1D_1$ with equilibrium quantity remains the same at Q_e and equilibrium price moves from P_{e0} to P_{e1}