Unit 3.

Demand and Supply

Text 3A



1. Before you start.

- How do you understand the term demand?
- What factors can influence demand?

2. Read the words and learn them by heart. Make up your own sentences with them.



1. Demand – спрос (на товары)

2. Supply – предложение, обеспечение

3. Variables – переменные факторы, переменные величины

4. Determinant – решающий фактор, детерминант, определитель

5. Related goods and services – соответствующие товары и услуги

6. To vary – меняться, изменяться, варьировать, колебаться

7. Income – доход, прибыль

8. To tend – иметь тенденцию, стремиться

9. Demand curve – кривая спроса

10. Roast – обжарка (о кофе)

11. To range from smth. to smth. – колебаться в пределах (от … до …)

12. To plot on smth. – наносить на (график), картировать

13. Representation – изображение, представление

14. Preference – предпочтение, преимущество

15. Bagel – баранка, бублик

16. To induce – побуждать, склонять, воздействовать (на кого-либо)

17. Shift – перемещение, изменение, сдвиг

18. Schedule – список, план, таблица



3. Read the text 3A, translate it and compare your ideas in ex.1 with the facts.

Demand

How many pizzas will people eat this year? How many doctor visits will people make? How many houses will people buy?

Each good or service has its own special characteristics that determine the quantity people are willing and able to consume. One is the price of the good or service itself. Other independent variables that are important determinants of demand include consumer preferences, prices of related goods and services, income, demographic characteristics such as population size, and buyer expectations. The number of pizzas people will purchase, for example, depends very much on whether they like pizza. It also depends on the prices for alternatives such as hamburgers or spaghetti. The number of doctor visits is likely to vary with income – people with higher incomes are likely to see a doctor more often than people with lower incomes. The demands for pizza, for doctor visits, and for housing are certainly affected by the age distribution of the population and its size.



http://www.softwarethinktank.com/wp-cont

While different variables play different roles in influencing the demands for different goods and services, economists pay special attention to one: the price of the good or service. Given the values of all the other variables that affect demand, a higher price tends to reduce the quantity people demand, and a lower price tends to increase it. A medium pizza typically sells for $5 to $10. Suppose the price were $30. Chances are, you would buy fewer pizzas at that price than you do now. Suppose pizzas typically sold for $2 each. At that price, people would be likely to buy more pizzas than they do now.

We will discuss first how price affects the quantity demanded of a good or service and then how other variables affect demand.

Price and the Demand Curve. The quantity demanded of a good or service is the quantity buyers are willing and able to buy at a particular price during a particular period, all other things unchanged.

A demand schedule is a table that shows the quantities of a good or service demanded at different prices during a particular period, all other things unchanged. To introduce the concept

of a demand schedule, let us consider the demand for coffee in the United States. We will ignore differences among types of coffee beans and roasts, and speak simply of coffee. The table in Figure 3.1 "A Demand Schedule and a Demand Curve" shows quantities of coffee that will be demanded each month at prices ranging from $9 to $4 per pound; the table is a demand schedule. We see that the higher the price, the lower the quantity demanded.

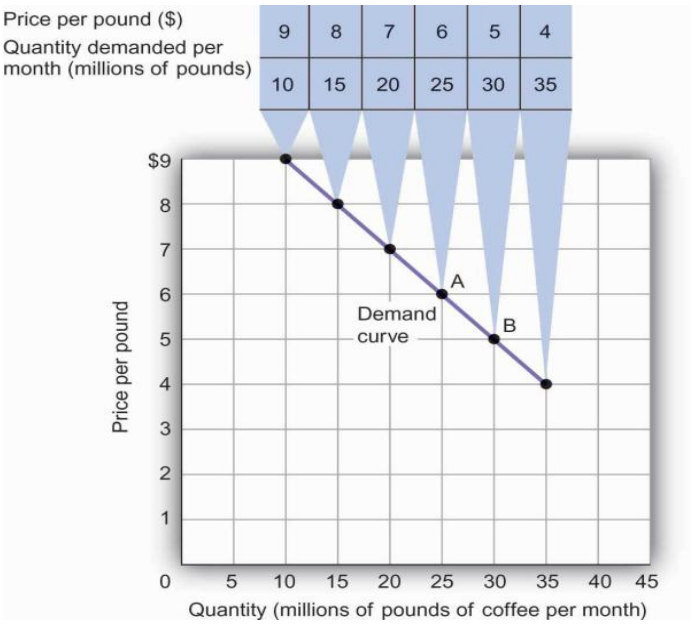


Figure 3.1 A Demand Schedule and a Demand Curve

The table is a demand schedule; it shows quantities of coffee demanded per month in the United States at particular prices, all other things unchanged. These data are then plotted on the demand curve. At point A on the curve, 25 million pounds of coffee per month are demanded at a price of $6 per pound. At point B, 30 million pounds of coffee per month are demanded at a price of $5 per pound.

The information given in a demand schedule can be presented with a demand curve, which is a graphical representation of a demand schedule. A demand curve thus shows the relationship between the price and quantity demanded of a good or service during a particular period, all other things unchanged (such as income or population).

Changes in Demand. Of course, price alone does not determine the quantity of a good or service that people consume. Coffee consumption, for example, will be affected by such variables as income and population. Preferences also play a role. We also expect other prices to affect coffee consumption. People often eat doughnuts or bagels with their coffee, so a reduction in the price of doughnuts or bagels might induce people to drink more coffee. An alternative to coffee is tea, so a reduction in the price of tea might result in the consumption of more tea and less coffee. Thus, a change in any one of the variables held constant in constructing a demand schedule will change the quantities demanded at each price. The result will be a *shift* in the entire demand curve rather than a movement along the demand curve. A *shift* in a demand curve is called a change in demand.

Just as demand can increase, it can decrease. In the case of coffee, demand might fall as a result of events such as a reduction in population, a reduction in the price of tea, or a change in preferences. For example, a definitive finding that the caffeine in coffee contributes to heart disease, which is currently being debated in the scientific community, could change preferences and reduce the demand for coffee.

Demand Shifters. Different goods and services may have different demand shifters, the demand shifters are likely to include (1) consumer preferences, (2) the prices of related goods and services, (3) income, (4) demographic characteristics, and (5) buyer expectations.

(Source: Principles of Microeconomics; http://www.saylor.org)

4. Say if the sentences concerning Text 3A are true or false.



1. The price of the good or service itself determine the quantity people are willing and able to consume.
2. Other variables that determine the demand are season of the year, our mood and physical condition.
3. People with higher incomes are likely to purchase goods and services more often than people with lower incomes.
4. A lower price tends to reduce the quantity people demand, and a higher price tends to increase it.
5. A demand curve shows the relationship between the price and quantity demanded of a good or service.
6. Prices of other goods and services do not affect demand and consumption of the particular product.

5. Answer the following questions.

1. What characteristics determine the quantity people are willing and able to consume?
2. Which of them is the most important one?
3. How does price affect the quantity demanded of a good or service?
4. How do you understand the notion “the quantity demanded of a good or service”?
5. What do a demand schedule and a demand curve show?
6. What can cause changes in demand? What variables affect consumption of goods and services?
7. Speak about alternative products.

8. Different goods and services may have different demand shifters; what are they?

6. Study, translate into Russian the following economic terms and match them with their definitions.

Word	Definition
1. peak	**a.** a period when there is little economic activity and many people are poor or without jobs.
2. boom	**b.** a difficult time for the economy of a country, when there is less trade and industrial activity than usual and more people are unemployed.
3. expansion	**c.** a situation in which smth. improves or increases over a period of time.
4. depression	**d.** a fall in the amount of business that is done; a time when the economy becomes weaker.
5. recession	**e.** a period of time when the level of smth. is low, especially a time when a business or the economy is nor growing.
6. downturn	**f.** the point when smb. or smth. is best, most successful, strongest, etc.
7. upturn	**g.** an act of increasing or making smth. increase in size, amount or importance.
8. trough	**h.** a sudden increase in trade and economic activity; a period of wealth and success.

7. Give English equivalents of the following words and word combinations from Text 3A.

Особые характеристики, предпочтения покупателя, соответствующие товары и услуги, демографические параметры, показатели, цены на альтернативные товары, варьироваться в зависимости от дохода, возрастной состав, экономисты обращают особое внимание, принимая во внимание ценность других переменных, обычно продается, шкала спроса, кривая спроса, потребление кофе, может побудить людей пить больше кофе, понижение чая в цене, сдвиг кривой спроса, изменение спроса, сокращение численности населения.

8. Discuss with the group the following topic and solve the problem:

All other things unchanged, what happens to the demand curve for car rentals if there is (a) an increase in the price of fuel, (b) a decrease in family income, or (c) an increase in the price of car rentals? In answering this problem, draw and carefully label a set of axes. On the horizontal axis of your graph, show the quantity of car rentals. It is necessary to specify the time period to which your quantity pertains (e.g., "per period," "per week," or "per year"). On the vertical axis show the price per car rental. Since you do not have specific data on prices and quantities demanded, make a "free-hand" drawing of the curve or curves you are asked to examine. Focus on the general shape and position of the curve(s) before and after events occur. Draw new curve(s) to show what happens in each of the circumstances given. The curves could shift to the left or to the right, or stay where they are.

Text 3B



1. Before you start.

- How do you understand the term supply?
- What factors can influence supply?

2. Read the words and learn them by heart. Make up your own sentences with them.



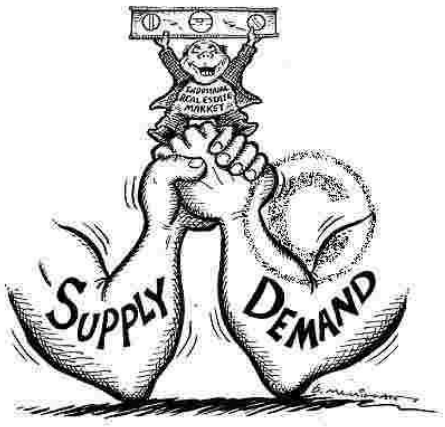
1. **Production cost –** стоимость производства, производственные затраты
2. **Returns –** прибыльность
3. **Expectation –** ожидание, надежда, вероятность
4. **Refer to** – ссылаться на, относиться к
5. **Profit –** польза, выгода, прибыль, доход
6. **To earn profit –** приносить прибыль, давать прибыль
7. **To make profit –** извлекать прибыль, получать прибыль
8. **Exception –** исключение, несоответствие
9. **Reduction –** снижение, понижение, уменьшение
10. **Upward sloping –** наклонённый вверх
11. **Movement –** движение, перемещение



3. Read the text 3B, translate it and compare your ideas in ex.1 with the facts.

Supply

What determines the quantity of a good or service sellers are willing to offer for sale? Price is one factor; ceteris paribus, a higher price is likely to induce sellers to offer a greater quantity of a good or service. Production cost is another determinant of supply. Variables that affect production cost include the prices of factors used to produce the good or service, returns from alternative activities, technology, the expectations of sellers, and natural events such as weather changes. Still another factor affecting the quantity of a good that will be offered for sale is the number of sellers – the greater the number of sellers of a particular good or service, the greater will be the quantity offered at any price per time period.



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Price and the Supply Curve

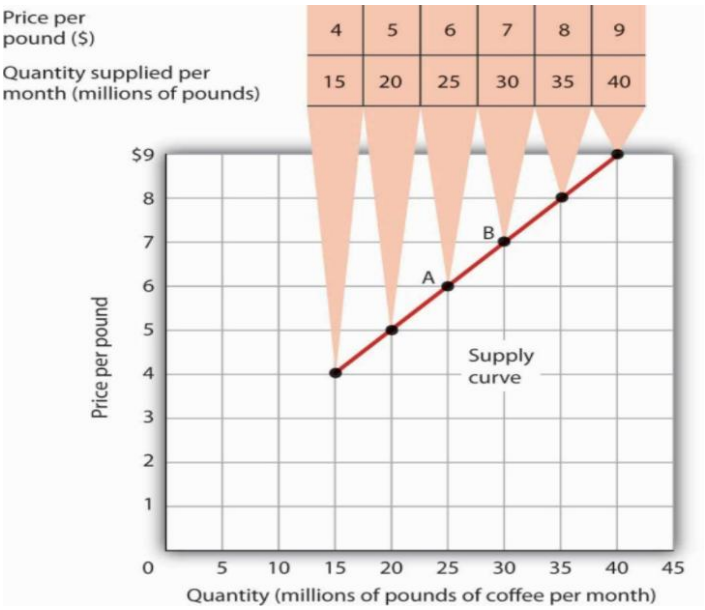
The quantity supplied of a good or service is the quantity sellers are willing to sell at a particular price during a particular period, all other things unchanged. Ceteris paribus, the receipt of a higher price increases profits and induces sellers to increase the quantity they supply.

In general, when there are many sellers of a good, an increase in price results in an increase in quantity supplied, and this relationship is often referred to as the law of supply. Though there are a number of exceptions to this relationship. There are cases in which a higher price will not induce an increase in quantity supplied. Goods that cannot be produced, such as additional land on the corner of Park Avenue and 56th Street in Manhattan, are fixed in supply – a higher price cannot induce an increase in the quantity supplied. There are even cases, in which a higher price induces a reduction in the quantity supplied.

Generally speaking, however, when there are many sellers of a good, an increase in price results in a greater quantity supplied. The relationship between price and quantity supplied is suggested in a supply schedule, a table that shows quantities supplied at different prices during a particular period, all other things unchanged. Figure 3.2 "A Supply Schedule and a Supply Curve" gives a supply schedule for the quantities of coffee that will be supplied per month at various prices, ceteris paribus. At a price of $4 per pound, for example, producers are willing to

supply 15 million pounds of coffee per month. A higher price, say $6 per pound, induces sellers to supply a greater quantity – 25 million pounds of coffee per month.

Figure 3.2 A Supply Schedule and a Supply Curve



The supply schedule shows the quantity of coffee that will be supplied in the United States each month at particular prices, all other things unchanged. The same information is given graphically in the supply curve. The values given here suggest a positive relationship between price and quantity supplied.

A supply curve is a graphical representation of a supply schedule. It shows the relationship between price and quantity supplied during a particular period, all other things unchanged. Because the relationship between price and quantity supplied is generally positive, supply curves are generally upward sloping. The supply curve for coffee in Figure 3.2 "A Supply Schedule and a Supply Curve" shows graphically the values given in the supply schedule.

A change in price causes a movement *along* the supply curve; such a movement is called a change in quantity supplied. As is the case with a change in quantity demanded, a change in quantity supplied does not shift the supply curve. By definition, it is a movement along the supply curve. For example, if the price rises from $6 per pound to $7 per pound, the quantity supplied rises from 25 million pounds per month to 30 million pounds per month. That's a movement from point A to point B along the supply curve in Figure 3.2 "A Supply Schedule and a Supply Curve".

(Source: Principles of Microeconomics; http://www.saylor.org)

4. Say if the sentences concerning Text 3B are true or false.

1. A higher price induces sellers to offer a lesser quantity of goods and services.
2. Price and production cost are the main determinants (factors) that influence supply.
3. The higher the price, the more will be the sellers on the market.
4. Sometimes a higher price may induce a reduction in the quantity supplied.

5. A supply schedule shows quantities supplied at one prices during various periods of time.
6. A supply curve shows the relationships between price and quantity of buyers willing to buy a good or service.

5. Answer the following questions.

1. What is the Latin term for "a higher price"?
2. What are the key-factors that determine the quantity of a good or service sellers are willing to offer for sale?
3. What variables affect production cost?
4. How does a number of sellers affect the quantity of a good that will be offered for sale?
5. Define the quantity supplied of a good or service.
6. How does a higher price affect market and sellers?
7. What is the law of supply?
8. Does an increase in price always result in an increase in quantity supplied?
9. What do a supply schedule and supply curve show?



6. Read the sentence pairs. Choose where the words best fit in the blanks.

1.	**Economic / economical**
	The government's _____ policy helped to increase the annual GDP. It is usually _____ to buy washing powder in large quantities.
2.	**Save / economize**
	Some people try to _____ on heating, tap water and light as these facilities are rather expensive. Jane seldom visited cafes because she was _____ for a new car.
3.	**Wage / pay / salary**
	My mother is a doctor, and her sister is a teacher, – unfortunately, their _____ is not very high. This guy works in a concrete producing factory and each week he gets his _____ . Her job is hard work, but the _____ is good.

4. **Profitable / successful**

The play was very _____ on Broadway.

He runs a highly _____ business.

7. Study, translate into Russian the following economic terms and match them with their definitions.

Word	Definition
1. debt	**a.** the money that you make in business or by selling things, especially after paying the costs involved.
2. demand	**b.** a product or service that is brought into one country from another.
3. supply	**c.** the money that a person, a region, a country, etc. earns from work, from investing money, from business, etc.
4. profit	**d.** the selling and transporting of goods to another country.
5. equilibrium	**e.** a sum of money that somebody owes.
6. income	**f.** an amount of smth. that is provided or available to be used.
7. import	**g.** a state of balance, especially between opposing forces or influences.
8. export	**h.** the desire or need of customers for goods or services which they want to buy or use.



8. Read and find Russian equivalents to the following English proverbs and sayings. Express your thoughts on these topics and explain the meaning of them.

- All covet, all lose.
- To angle with a silver hook.
- An ass loaded with gold climbs to the top of the castle.
- A bargain is a bargain.
- Better be born lucky than rich.
- Better be envied than pitied.

Text 3C



1. Before you start.

- What factors can cause changes in supply?
- What goods and services are in demand in your region?

2. Read the words and learn them by heart. Make up your own sentences with them.

1. To assume – принимать (характер, форму), предполагать, допускать

2. Fertilizer – удобрение, минеральное удобрение

3. Previous – предыдущий, прежний

4. Yield – урожай, плоды, урожайность

5. **Supply curve** – кривая предложения



3. Read the text 3C, translate it and compare your ideas in ex.1 with the facts.

Changes in Supply

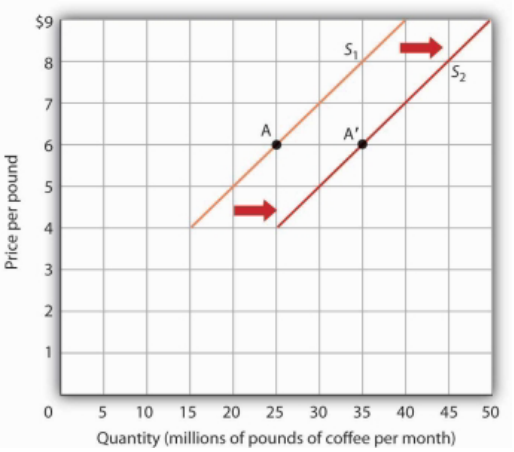


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When we draw a supply curve, we assume that other variables that affect the willingness of sellers to supply a good or service are unchanged. It follows that a change in any of those variables will cause a change in supply, which is a shift in the supply curve. A change that increases the quantity of a good or service supplied at each price shifts the supply curve to the right. Suppose, for example, that the price of fertilizer falls. That will reduce the cost of producing coffee and thus increase the quantity of coffee producers will offer for sale at each price. The supply schedule in Figure 3.3 "An Increase in Supply" shows an increase in the quantity of coffee supplied at each price. We show that increase graphically as a shift in the supply curve from *S*1 to *S*2. We see that the quantity supplied at each price increases by 10 million pounds of coffee per month. At point A on the original supply curve *S*1, for example, 25 million pounds of coffee per month are supplied at a price of $6 per pound. After the increase in supply, 35 million pounds per month are supplied at the same price (point A′ on curve *S*2).

Figure 3.3 An Increase in Supply

Price	Old quantity supplied	New quantity supplied
$4	15	25
5	20	30
6	25	35
7	30	40
8	35	45
9	40	50

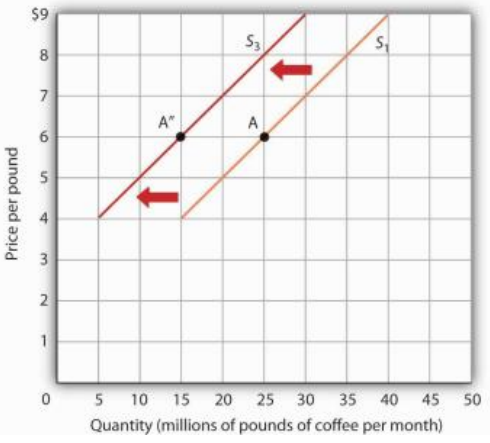


If there is a change in supply that increases the quantity supplied at each price, as is the case in the supply schedule here, the supply curve shifts to the right. At a price of $6 per pound, for example, the quantity supplied rises from the previous level of 25 million pounds per month on supply curve S1(point A) to 35 million pounds per month on supply curve S2 (point A').

An event that reduces the quantity supplied at each price shifts the supply curve to the left. An increase in production costs and excessive rain that reduces the yields from coffee plants are examples of events that might reduce supply. Figure 3.4 "A Reduction in Supply" shows a reduction in the supply of coffee. We see in the supply schedule that the quantity of coffee supplied falls by 10 million pounds of coffee per month at each price. The supply curve thus shifts from *S*1 to *S*3.

Figure 3.4 A Reduction in Supply

Price	Old quantity supplied	New quantity supplied
$4	15	5
5	20	10
6	25	15
7	30	20
8	35	25
9	40	30



A change in supply that reduces the quantity supplied at each price shifts the supply curve to the left. At a price of $6 per pound, for example, the original quantity supplied was 25 million pounds of coffee per month (point A). With a new supply curve S3, the quantity supplied at that price falls to 15 million pounds of coffee per month (point A").

A variable that can change the quantity of a good or service supplied at each price is called *a supply shifter*. Supply shifters include (1) prices of factors of production, (2) returns from alternative activities, (3) technology, (4) seller expectations, (5) natural events, and (6) the

number of sellers. When these other variables change, the all-other-things-unchanged conditions behind the original supply curve no longer hold.

(Source: Principles of Microeconomics; http://www.saylor.org)

4. Say if the sentences concerning Text 3C are true or false.

1. A change that increases the quantity of a good or service supplied at each price shifts the supply curve to the left.
2. If the price of fertilizer falls, that will increase the quantity of coffee supplied.
3. An increase in production costs and excessive rain might reduce supply of coffee.
4. A change in supply that reduces the quantity supplied at each price shifts the supply curve to the right.
5. A variable that can change the quantity of a good or service supplied at each price is called a demand shifter.



5. Answer the following questions.

1. How does the increase in the quantity of a good or service influence the supply curve?
2. How can the fall in the price of fertilizer influence the supply of coffee?
3. Using figure 3.3 "An Increase in Supply", explain the shift of the supply curve.
4. What natural and unnatural reasons can reduce supply?
5. What is a supply shifter?
6. What do supply shifters include?

6. Read and translate into Russian the following word-combinations. Pay attention to the way some words change their meaning depending on the word-combination they are used in.

a) Active demand, aggregate demand, alternate demand, anticipated demand, competitive demand, considerable demand, consumer demand, consumer's demand, decreasing (declining, diminishing) demand, expected demand, heavy demand, product demand;

b) aggregate supply, assured supplies, ample supplies, competitive supply, composite supply, contractual supplies, critical supplies, currency supply, deficient supply, direct supplies, excess supply, factory supplies, food supply, guaranteed supplies, large supplies, low supply, market supply, to offer supply, to arrange for a supply;

c) Bear market, bull market, bid market, black market, bootleg market, buyers' market, commodity market, competitive market, dead (dull) market, effective market, enduring market, expanding market, fund market, goods market, home (inland) market, housing market, job (labour) market, mass market, primary mortgage market, property market, real estate market, retail market, wholesale market, sophisticated market, steady market, world market;

d) at the market, in the market, on the market, to black the market, to bring on (to) the market, to branch out into a new market, to come into the market, to congest a market, to conquer a market, to meet with a ready market, to play the market.

7. Read the sentence pairs. Choose where the words best fit in the blanks.

1.	**Actual / current / present**
	Due to the difficult economic situation in the country, the factory cannot continue its _____ level of production. The president always demands _____ figures to make up optimal decision. He has been working for 5 years already in his _____ job.
2.	**Bill / invoice**
	This month we have got a huge electricity _____ . Our partners sent us the _____ for $250.
3.	**Expensive / overpriced**
	This restaurant is too _____ for me, let's go to another one. Some designer clothes are ridiculously _____ .
4.	**Money / cash**
	How would you like to pay: in _____ or by a credit card? How much _____ is there in my account?



8. Read and find Russian equivalents to the following English proverbs and sayings about money. Express your thoughts on these topics and explain the meaning of them.

Money begets money.

Money has no smell.

Money is a good servant but a bad master.

Money often unmakes the men who make it.

Money spent on the brain is never spent in vain.

Money is the root of evil as often as the root of it (H. Filding).



1. Fill in the gaps using the words below:

Implementation, tax, income, profit, demand, supplies, entrepreneur, shifts, previous, expands.

1. Our vocabulary _____ through reading. 2. _____ is a businessman who has his own company and tries to gain profit from his activities. 3. _____ of new technologies helped to optimize manufacturing. 4. Peak _____ for chocolate and sweets usually takes place during New Year's Eve and the 8th of March. 5. Tourism is a major source of _____ for this country. 6. The action of the story _____ from London to Paris. 7. After the company has paid all costs and tax it gets net _____. 8. No _____ experience is necessary for this job. 9. People pay _____ to the state according to their income. 10. _____ of food are almost exhausted.

2. Translate the following sentences into English.

1. Производство автомобилей снизилось на 20% по сравнению с прошлым годом. 2. Предприниматели, также как и госслужащие, должны платить налоги. 3. Компания расширила свой бизнес, открыв три новых магазина в соседних районах. 4. Внедрение новых компьютерных программ упростило работу бухгалтеров. 5. Новая модель I-phone очень популярна и пользуется спросом. 6. Спрогнозировать спрос на некоторые товары достаточно сложно. 7. Из-за недостаточного (low) снабжения газа, люди зимой могут остаться без тепла. 8. Большие торговые центры получают хороший доход от продажи товаров и услуг. 9. Он попытался свалить вину на своих коллег. 10. Компания получила хорошую прибыль от сделки.

3. Fill in the gaps with necessary prepositions.

1. All the year she was saving up _____ a summer trip to Brazil. 2. Don't economize _____ your health, it's the most valuable thing you have. 3. Annual increase _____ prices was not unexpected. 4. Decrease _____ population has become an urgent problem _____ this country. 5. This shop offers a wide range _____ products. 6. Income tax _____ individuals should be paid by everyone and _____ time. 7. Ford company succeeded _____ conveyor car production. 8. Some merchants buy fruit _____ gross and then sell it _____ retail. 9. A ban _____ the export _____ some goods can ruin a country's economy. 10. Imports _____ salmon has decreased this year. 11. Demand and supply should be _____ equilibrium. 12. These goods are packed _____ export.

4. Think of the situations where you can use the following idioms.

To be head over ears in debt, to be in low water, to play one's cards well, all for nothing, to burn one's fingers, to burst like a bubble, to come down in the world, to come back to earth, to put smth. to good account, to be as rich as Croesus, to remove the scales from smb.'s eyes, to rest on one's oars, a million to one, money for jam, monkey business, money from home, to move heaven and earth.



5.1. Speaking. Discuss with your groupmates, how demand and supply for various goods and services can vary and change according to different situations:

- Geographical location;
- Change of the season;
- Various holidays;
- Political situation;
- Economic situation.

Suggest your own criteria that can influence demand and supply.

5.2. Make a presentation. Describe some peculiarities of demand and supply for various goods and services in different countries.