**Topic 5.1 Demand & Supply: Activity**



Gillams is a small firm that makes steel parts for machines. Over the past twelve months it has seen the price of steel double. Steel is a commodity that is traded on world markets. In recent years, the demand for steel from China and other fast growing economies has increased rapidly. The size of the Chinese economy is doubling every seven years. China’s cities are seeing a construction boom and steel is in very heavy demand for new buildings.

Gillams has no choice but to pay the higher prices for steel. However, it is being hard hit by the price increases. Its customers are putting pressure on the company not to put up its prices. They are hinting that they will buy their parts from a different supplier if Gillams chooses to go ahead with a price rise. On the other hand, Gillams has worked closely with many of its customers for a number of years, giving excellent service. Competitors have also been putting up their prices. So Gillams has made the decision to raise its prices too by 10 per cent.

**Questions:**

1. What is the term when ‘Supply’ is greater than ‘Demand’? (**1**)
2. What is the term for when ‘Demand’ is greater than ‘Supply’? (**1**)………………………..
3. Steel is a commodity. Its price is determined in International markets. Explain why the price of steel might rise on these markets. **(3)**
4. Analyse TWO possible effects on Gillam’s if it had not increased its prices by 10 per cent. (**6**)
5. Evaluate how Gillam’s customers might react to the 10 per cent increase in price. (**6**)