**Topic 5.1 Demand & Supply: Activity**



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| **Key Term:** | **Definition:** |
| **Shortage** | When the demand for a good or service is greater than the supply. When a shortage exists, prices will tend to rise. |
| **Surplus** | When the demand for a good or service is less than the available supply. When a surplus exists, prices tend to fall. |

Demand for the product is the amount that buyers are willing and able to purchase at any given price. Wheat, for example is used to make products such as bread, pasta, biscuits, beer, flour and animal feed. The demand for wheat is affected by the decisions of millions of businesses and individuals throughout the world who buy these products. If demand for wheat rises, it will affect the price of wheat.

Supply for a product is the amount that sellers are willing and able to sell at any given price. The supply of wheat, for example, is just as affected by global conditions as the demand for wheat. There are hundreds of thousands of small farmers who produce what throughout the world. The supply of wheat depends partly upon the prices that farmers think they will get for wheat compared to other products they grow.

If demand for a commodity is greater than supply, then there will be a shortage. Prices will rise when a shortage exists in a market. The bigger the shortage the greater will be the rise in price. In other situations, the supply of a commodity can be greater than the demand. In this situation there will be a surplus and prices will fall.

**Task 1 (AO1):**

1. What is a commodity?
2. Give THREE examples of a commodity.
3. What is the difference between a ‘Goods Market’ and a ‘Commodity Market’?
4. What does it mean by ‘Supply’?
5. What does it mean by ‘Demand’?
6. How are ‘Demand’ and ‘Supply’ related to each other?

**Task 2 (AO1-AO3):**

1. For this task you need to look at the demand and supply of wheat for a farmer. You need to set a fair price and justify this in the ‘Reason’ column.

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| **Demand:** | **Supply:** | **Price:** | **Reason:** |
| 100kg | 160kg | 50p | The supply for the wheat I have produced is greater than the demand so in the current economic climate this is a reasonable price. |
| 100kg | 120kg |  |  |
| 120kg | 100kg |  |  |
| 140kg | 80kg |  |  |

1. What happens to demand and supply when there is a ‘Shortage’? What happens to price when there is a ‘Shortage’?

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1. What happens to demand and supply when there is a ‘Surplus’? What happens to price when there is a ‘Surplus’?

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