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**Title:** Introduction to Microeconomics

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## Question 1.

### Part (A)

- I. If the cost of aviation fuel has risen dramatically then there will be a shift in the supply curve of airline tickets sale to the left. If there has been a high increment in the price of fuel then assumingly the airline company would not be able to tolerate with supply that it was offering so due to the increasing input prices, there will be an increment in the price of the airline ticket, thus decreasing demands from customers. (Gans 73)
- II. In this scenario: sugar and coffee are considered complements. Complements goods are two goods for which a decrease in the price of one good leads to an increase in the demand for the other goods. In this case the demand of coffee would be sharply decreasing as well because coffee and sugar are bought together, thus making a shift of the demand curve to the left. (Gans 68)
- III. If the demand for coffee rises in proportion to the rise in income then coffee is considered to be normal goods. Because goods become inferior only when its quantity demanded becomes increasingly declining due to a rise in income. (Gans 67)
- IV. If there is excess in the market then the price tends to fall because there are overwhelming amounts of products that need to be sold in order to reach an equilibrium point. (Gans)
- V. If there is an increase in the quantity of chocolate demanded then this represents a movement along the demand curve for the chocolate in correspond to the relationship between the price and quantity demanded. Which ultimately lead to the conclusion of price-induced changes thus making the movement goes to the right. (Gans 65)
- VI. Even if there is an increase in the wage of workers in the automobile industry, that does not imply an alternation to the supply and demand curve. In accordance to law of supply and demand, this scenario does not

represent sufficient evidence that could prove any shift or movement in neither supply nor demand curve.

- VII. This scenario states there is a technological advancement in the production of diesel cars. So according to the external variable of shifting then there will be a shift of supply curve to the right (Gans 75).
- VIII. There is an increase in the price of bananas. In this case both factors of supply and demand are affected, because if a price of a certain factor is increased then the suppliers would likely supply more, while the demand of that certain product would decrease, thus making a movement to the left for demand curve according to price-induced change and a shift to the right for supply curve, hence a creation of surplus (Gans 76).
- IX. If a number of firms left a perfectly competitive market then there will be a shortage of suppliers, manufacturers, or retailers for the market. If this happened then there will be a shift to the left for supply curve in accordance to the external variable that involved number of sellers (Gans 75).
- X. Substitute goods are two goods for which a decrease in the price of one good leads to a decrease in the demand for the other goods. If there is a high increment of price for coke the demand for it will drop sharply. Since this is a price-induced change there will be movement to the left for the demand curve (Gans 68).

## Reference

Gans, Joshua., King, Stephen., Stonecash, Robin., Mankiw, N. Gregory. (2009).  
*Principles of Economics* (4<sup>th</sup> ed.). Victoria: Cengage Learning Australia Pty Limited.