

Answer on Question #39201 – Economics – Microeconomics

Assignment

1. Nowadays there are many types of notebook that can be found in the market. Whether it is for personal or business usage there are plenty of choices by looking at the design, price and specs that are provided to them. An increase in the demand for notebooks raises the quantity of notebooks demanded, but not the quantity supplied. Elaborate with detail and provide some examples to support your statement.
2. Starbucks, Chatime, The coffee Bean & Tea Leaf and Dunkin Donuts are some of the shops that are selling coffee and tea to their customers by the name of McCafe. Even fast food companies such as McDonald now sell coffee to their customers by the name of McCafe. The product is considered as a substitute good where if the price of coffee is increased people will go for tea and vice versa. Explain the substitute effect and the choice that a consumer makes under this effect.

Solution

1. This statement is false, because an increase in demand means a shift of the demand curve to the right, it will increase both price and quantity supplied. There is no shift of the supply curve.
2. Substitution effect is the idea that as prices rise (or incomes decrease) consumers will replace more expensive items with less costly alternatives. Conversely, as the wealth of individuals increases, the opposite tends to be true, as lower-priced or inferior commodities are eschewed for more expensive, higher-quality goods and services - this is known as the income effect. Although beneficial to some (i.e. discount retailers), in general, the substitution effect is very negative in nature, as it limits choice. This is true not only for products, but also for services. Examples of the substitution effect in action can sometimes be observed over the winter holiday season, where, in lean economic times, discount retailers often hold up well.