Demand and Supply Factors

Name

Institution

Explain how both demand and supply side factors are likely to affect the price of rail tickets in the UK.

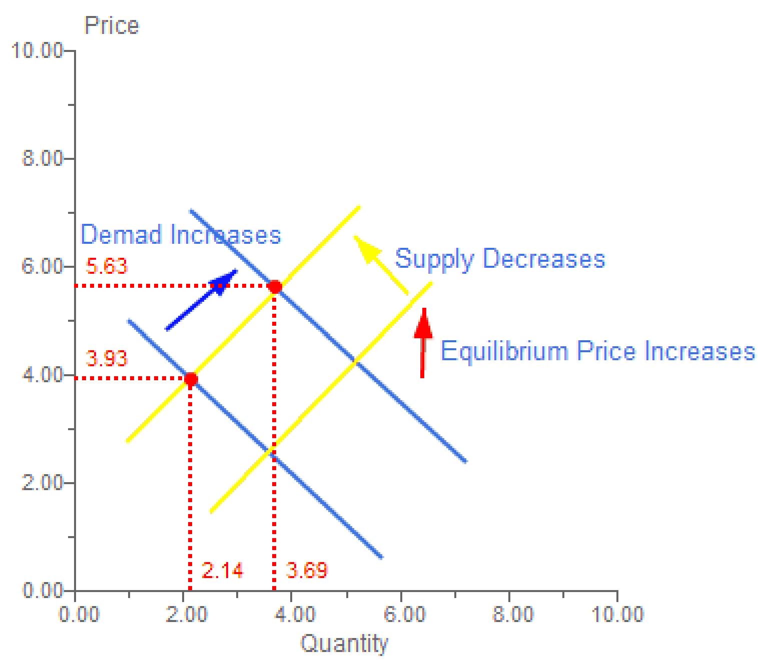
Answer

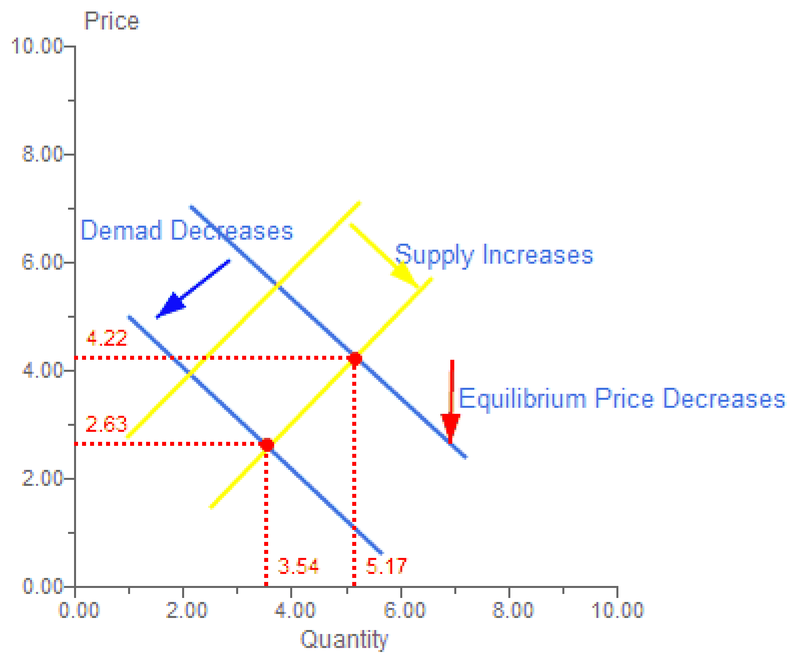
The factors affecting demand for the rail tickets include population, the prices of substitutes, the average income of individuals, and the frequency of commuting to work (Parkin, 2016). These factors are likely to affect the prices of rail tickets because an increase in population, for example, would result in an increased demand for the tickets due to the increased number of people traveling. Consequently, the high demand will trigger high prices of the rail tickets in the market, hence making the demand curve shifts to the right.

Similarly, the increase in prices of other transporting services (substitutes of the rail tickets) will raise the demand for rail tickets since people would most likely shift to a cheaper mode of transport, which is by rail. The rise in demand would also trigger an increase in the price of rail tickets, shifting the demand curve to the right. The increase in average income and frequency of commuting to work would bring about similar effects on demand curve and prices (Salvatore & Salvatore, 2011). On the other hand, the decrease in the magnitude of these demand factors would result in reductions of rail tickets prices and hence shift of the demand curve to the left.

The supply factors include fuel prices, tax, electricity costs, staff salaries and lack of subsidies. An increase in the magnitude of any of these factors will result in a decrease in the supply of the rail tickets. For example, an in an increase in electricity costs will make the provision of rail tickets expensive, resulting in low supply. The reduction in the supply of the rail tickets will, in turn, leads to higher prices of the tickets to recover the high cost of production. As a result, the supply curve will shift to the left. On the other hand, the decrease in the magnitude of these supply factors will lead to a drop in production costs that would eventually result in high supply and low prices (Samuelson & Nordhaus, 2010). In this case, the supply curve will shift to the right.

The effects of the shifts in demand and supply curves on equilibrium prices are illustrated in the following graphs:





Answer provided by AssignmentExpert.com

References

Parkin, M. (2016). *Microeconomics*. Pearson Education Limited.

Salvatore, D., & Salvatore, D. (2011). *Microeconomics*. New York: McGraw Hill.

Samuelson, P., & Nordhaus, W. (2010). *Microeconomics*. Boston [u.a.]: McGraw-Hill Irwin.