ECONOMICS ASSIGNMENT

Ex Hoon Pty Ltd, a producer of auto parts, specializing in high tech safety systems. The company has recently patented a new technology that will revolutionize vehicle safety.

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Part A

Factors Influencing market Demand for a Commodity

They are loads of factors influencing the demand. A few of them are:

1. Income of the buyer:

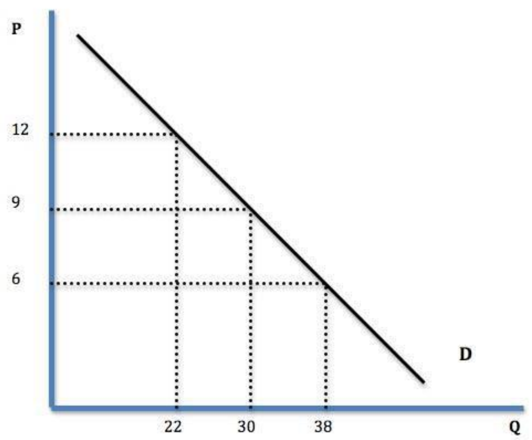
A buyer's demand is impacted by the extent of his earnings. With expansion in the earnings' level, there is expansion in the demand for products/services. An ascent in income causes leads to an ascent in utilization. Subsequently, a shopper purchases additional. For the majority of the merchandise, the income impact is certain. However, for the substandard merchandise, the income impact is negative. That implies with an ascent in earnings, demand for inferior merchandise might decrease.

2. Price of the goods:

Price is a vital element, which impacts demand for the items for Ex Hoon. For the most part, demand for the item extends when its price drops, similarly in case the price expands, its demand shrinks. It ought to be noticed that it won't take place, if remaining factors don't stay consistent.

3. Transforms in the prices of related goods:

In some cases, the demand for a product may be affected by prices alterations of different merchandise. There are two sorts of related products. They are substitutes and supplements. Tea and Coffee are great substitutes. An ascent in the price of espresso will build the demand for tea and the other way around. Bread and margarine are supplements. A drop in the price of bread will expand the demand for margarine and the other way around.



Like, in case there is a boost in price from AUD9 to AUD12 in that case there will be a drop in demand from 30 to 22

Shifts in the demand curve

This happens when, yet at the constant price, customers are ready to purchase an upper (or lesser) amount of products. This will happen in case there is a movement in the circumstances of demand.

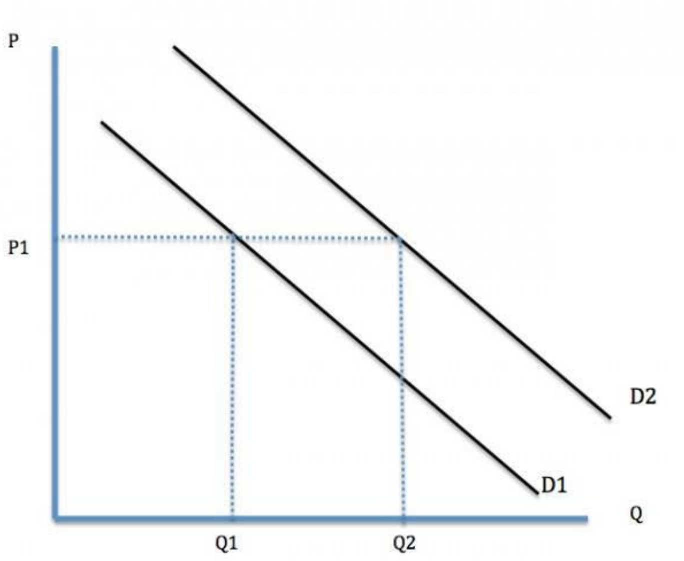
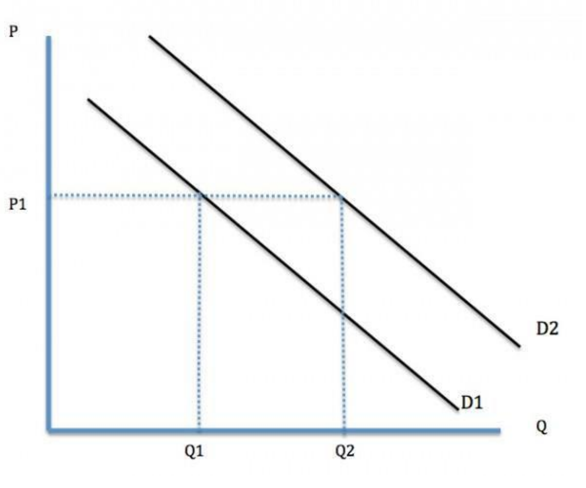
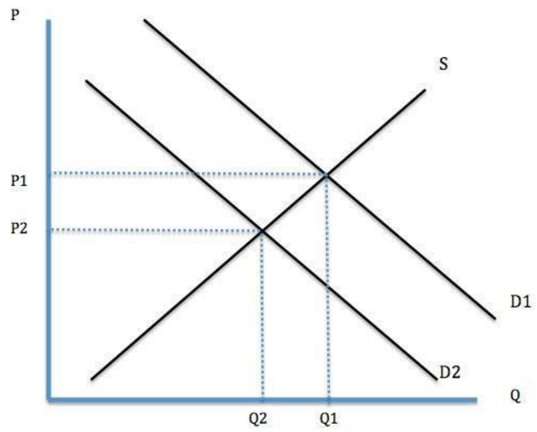


Image to explain move in demand



A move to the right side in the demand curve can take place due to several rationales: Income**,** Quality**,** publicity**,** Substitute goods, Complementary goods, climate, anticipations of upcoming price boosts etc.

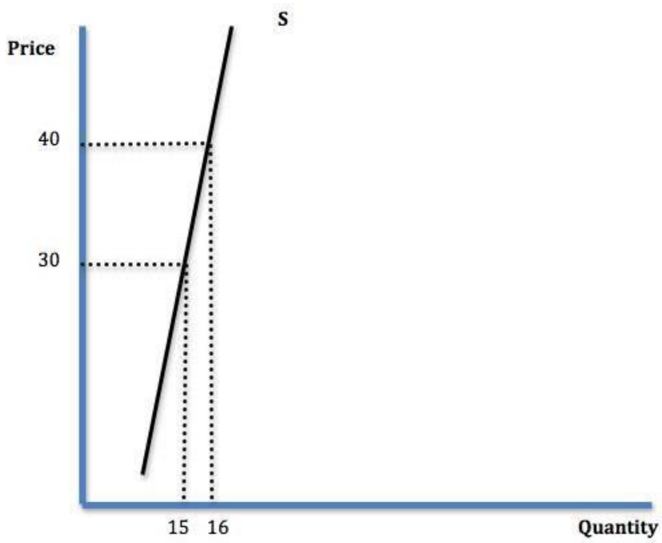


A drop of demand could happen because of lesser extra cash or decrease in ubiquity of the item. For some extravagance merchandise earnings will be an essential factor of deciding level of demand. One would buy more food with rise in income but not more of salt. Publicizing is vital for merchandise in which brand is essential, e.g. soda cans yet not for grapes (Samuelson and Nordhaus, 2011).

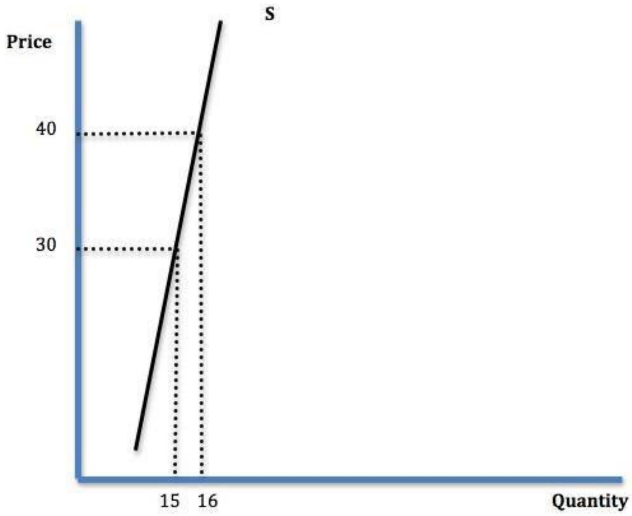
Factors Influencing market Supply for a Commodity

Supply alludes to the amount of an item that the maker intends to offer in the business sector.

- As price increments Ex Hoon Pty Ltd has a motivating force to supply more in light of the fact that they get additional (income) from offering the merchandise.
- In case the price alters, there is a shift next to the supply curve, e.g. a superior price leads to a superior quantity to be supplied.



Movements in the Supply curve



An expansion in supply happens when further is supplied at every price, this could happen for the accompanying causes:

1. A diminishing in costs of generation, this implies business can supply additional at every price. Lower costs could be because of lesser remunerations, lesser crude material costs

2. An expansion in the quantity of makers will bring about an increment in supply

3. Extension in limit of active businesses, e.g. building another processing plant

Price elasticity of demand

Price elasticity of demand (PED) demonstrates the link in the middle of price and quantity demanded and gives an exact figuring of the impact of an adjustment in price on amount demanded. The level of reaction of amount demanded to an adjustment in price can differ extensively. The vital standard for measuring elasticity is if the co-effective is more noteworthy or not exactly in proportion. In case, the amount demanded transforms impartially, then the estimation of PED is 1, i.e. 'unit elasticity'.

PED can also be:

- <1, i.e. PED is ***inelastic.***
- >1, i.e. ***elastic***.
- =0, i.e. ***perfectly inelastic***.

- ∞, i.e.***perfectly elastic***.

Income elasticity of demand

The Income Elasticity of Demand measures the rate of reaction of amount demanded because of an increase (or bringing down) in a customer’s income. Income elasticity of demand is utilized to perceive how receptive the demand for an item is towards an income change. The high the income elasticity, the more receptive demand is to income changes. Soaring income elasticity proposes that when a shopper's income rises, buyers will purchase significantly a greater amount of that item. Low price elasticity infers the exact inverse, that an adjustment in a purchaser’s income has little impact on demand.

- IEoD > 1 in that case the item is Income Elastic and is a Luxury
- 1> IEOD > 0 in that case the item is Income Inelastic and is a Normal Good
- IEoD < 0 in that case the item is Negatively Income Inelastic and is an Inferior Good

Why demand is elastic or inelastic in the long and short run.

The time allotment period that individuals need to react to price changes assumes a critical part. Demand has a tendency to be more elastic in the long run as opposed to in the short run, in light of the fact that when prices change buyers regularly require extra span to react and modify their shopping propensities. In any case, in the short run, the demand for merchandise might be inelastic, since it sets aside some time for buyers both to see and afterward to react towards the shift in prices (O’Sullivan and Sheffrin, 2007).

Part B

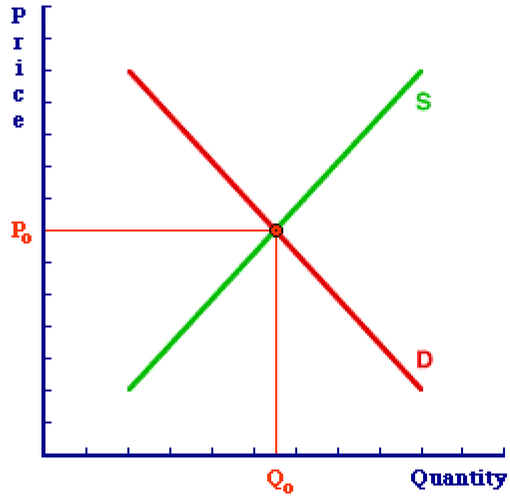
Ford to close its Broadmeadows and Geelong plants for which Ex Hoon Pty Ltd is a major supplier.

This would lead to a fall in demand of goods of Ex Hoon Pty Ltd. The supply remains the same with a fall in demand, so the price will fall for goods of Ex Hoon Pty Ltd. The closure of plants will lead to a fall in demand and thus there will be a subsequent fall in the supply moving the equilibrium price to shift downwards.

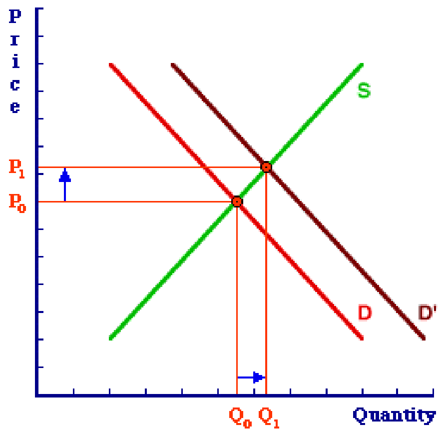
Part C

The government announces tough new safety standards for all new vehicles sold in Australia

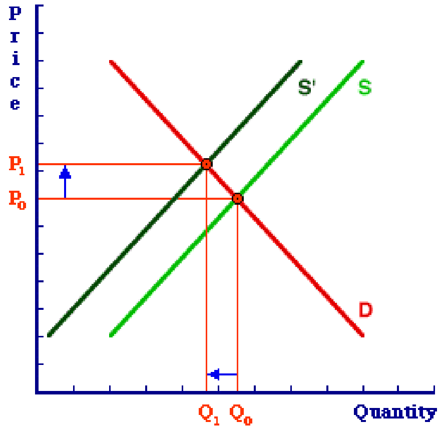
The safety standards will increase the demand via assurance of quality and the supply gets restricted/ controlled. In order to get more buyers and better safety for buyers, the govt has laid rules for new vehicles in Australia. The demand of safe goods will increase with a fall in the supply. Supply would fall if the producers are unable to meet the given specifications.



Increase in demand curve



Decrease in supply curve



Specifically, the new demand and supply bends are attracted such a route, to the point that they move by the same sum. These two bends could have been drawn such that they moved by distinctive sums (Mankiw, 2014). What's more, provided that this is true, the amount would have wound up more noteworthy or not exactly the first. Amount is indeterminant.

Last for the firm chosen; what is the market structure that the firm operates in? *Why?* For example, does in operate in a competitive market, is it a monopoly, or someone in between such as monopolist competition or oligopoly?

I think this is an monopoly wherein Ex Hoon Pty LTd has high effect of the changes in business situations and is impacted by the same.

References

Mankiw, (2014).“*Principals of Macroeconomics*”,South-WesternCollegePub,UK

O’Sullivan and Sheffrin, (2007). “*Economics: Principals in Action*”, Prentice Hall,New Jersey

Samuelson and Nordhaus, (2011). “*Microeconomics*”,McGraw-Hill,US