1. To what extent do you think that price is the most important determinant of demand?

*Answers may include:*

A demand curve shows the amount consumers are willing and able to buy at each and every price all other factors unchanged. A change in price will lead to change in the quantity demanded; this is a movement along the demand curve. The sensitivity of demand to price changes is measured by the price elasticity of demand. If demand is price elastic then a given percentage change in price leads to a bigger percentage change in quantity demanded. If demand is price inelastic then a given percentage change in price leads to a smaller percentage change in quantity demanded. If factors other than the price change this leads to a shift in the demand curve; for example an increase in income will shift the demand curve for a normal good outwards; an increase in the price of a complement will shift the demand curve for a product inwards. There are, therefore, many different factors affecting demand and their relative importance depends on the product (for example is it particularly price sensitive or income sensitive) and which factors are changing at a given time.

2. Discuss the ways in which the concept of the elasticity of demand might be of value to the managing director of an international supermarket chain.

*Answers may include:*

The price elasticity of demand measures how sensitive demand is to changes in price. The income elasticity of demand measures how sensitive demand is to changes in income. Other forms of elasticity will measure the sensitivity of demand in relation to factors such as changes in the price of other products and weather conditions. An international supermarket is likely to have a wide range of products and an enormous of data on sales patterns. This means it possible in theory to measures the relationship between sales and changes in different variables, As a result a manager may be able to:

- Decide on price changes e.g. she can estimate the effect of price discounts on sales and revenue
- Decide on what to stock as the weather changes or income changes.

Decisions such as these will affect the buying, stock and staffing of the business. However the values of elasticity will change over time and between locations and the manager must continually review the apparent relationship between sales and a variable. It can also be difficult to identify the specific effect of e.g. a price change if many other factors are changing as well. Furthermore some factors can change unpredictably (such as the weather) and therefore are difficult to prepare for even if the elasticity is known.
3. To what extent is the demand for low-cost airlines under the control of the companies’ managers?

*Answers may include:*

The managers can control their marketing. They can control the routes, the price, the level of service and the way it is promoted. This can help to influence the demand as a whole and by different target groups.

However, there are many factors beyond the control of managers such as competitors and the overall state of the economy which will influence the demand for travel such as the economy, perceived safety threat, environmental taxes, and availability of landing slots. Managers can try to forecast changes in the market and take appropriate actions; however, they are not operating in isolation and must make changes subject to external factors.