SUPPLY AND DEMAND I: HOW MARKETS WORK

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ИЭУИС - 11

The Market Forces of Supply and Demand

- Supply and demand are the two words that economists use most often.
- Supply and demand are the forces that make market economies work.
- Modern microeconomics is about supply, demand, and market equilibrium.

MARKETS AND COMPETITION

- A *market* is a group of buyers and sellers of a particular good or service.

- The terms supply and demand refer to the behavior of people . . . as they interact with one another in markets.

MARKETS AND COMPETITION

- Buyers determine *demand*.

- Sellers determine *supply*

Competitive Markets

- A *competitive market* is a market in which there are many buyers and sellers so that each has a negligible impact on the market price.

Competition: Perfect and Otherwise

- Perfect Competition
  - Products are the same
  - Numerous buyers and sellers so that each has no influence over price
  - Buyers and Sellers are price takers
- Monopoly
  - One seller, and seller controls price

Competition: Perfect and Otherwise

- Oligopoly
  - Few sellers
  - Not always aggressive competition
- Monopolistic Competition
  - Many sellers
  - Slightly differentiated products
  - Each seller may set price for its own product

DEMAND

- *Quantity demanded* is the amount of a good that buyers are willing and able to purchase.
- Law of Demand
  - The *law of demand* states that, other things equal, the quantity demanded of a good falls when the price of the good rises.

The Demand Curve: The Relationship between Price and Quantity Demanded

- Demand Schedule
  - The *demand schedule* is a table that shows the relationship between the price of the good and the quantity demanded.

Catherine’s Demand Schedule

Price of Ice-Cream Cone	Quantity of Cones Demanded
$0.00	12
0.50	10
1.00	8
1.50	6
2.00	4
2.50	2
3.00	0

The Demand Curve: The Relationship between Price and Quantity Demanded

- Demand Curve
  - The *demand curve* is a graph of the relationship between the price of a good and the quantity demanded.

Figure 1 Catherine's Demand Schedule and Demand Curve

Price of Ice-Cream Cone	Quantity of Cones Demanded
$0.00	12
0.50	10
1.00	8
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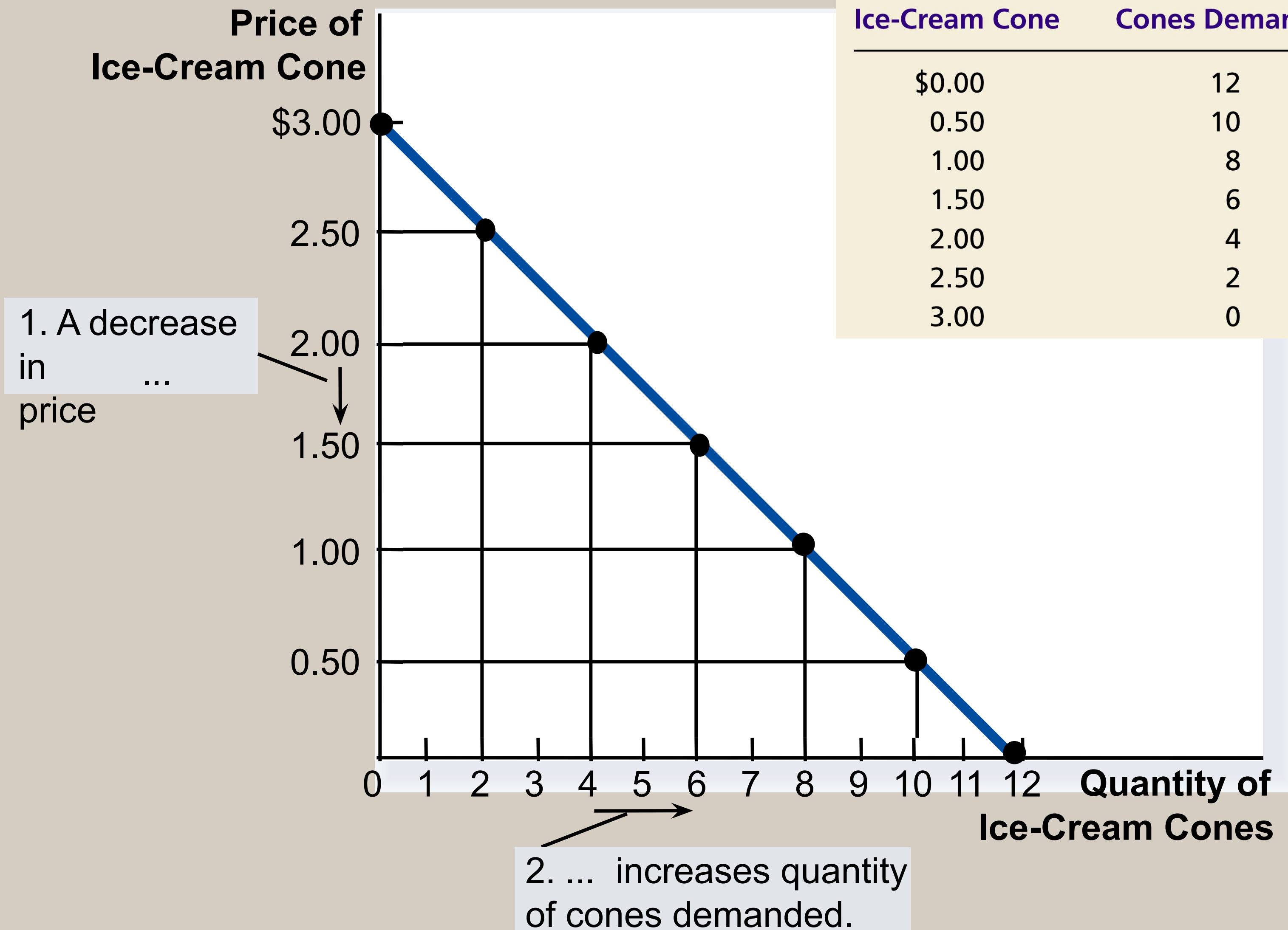


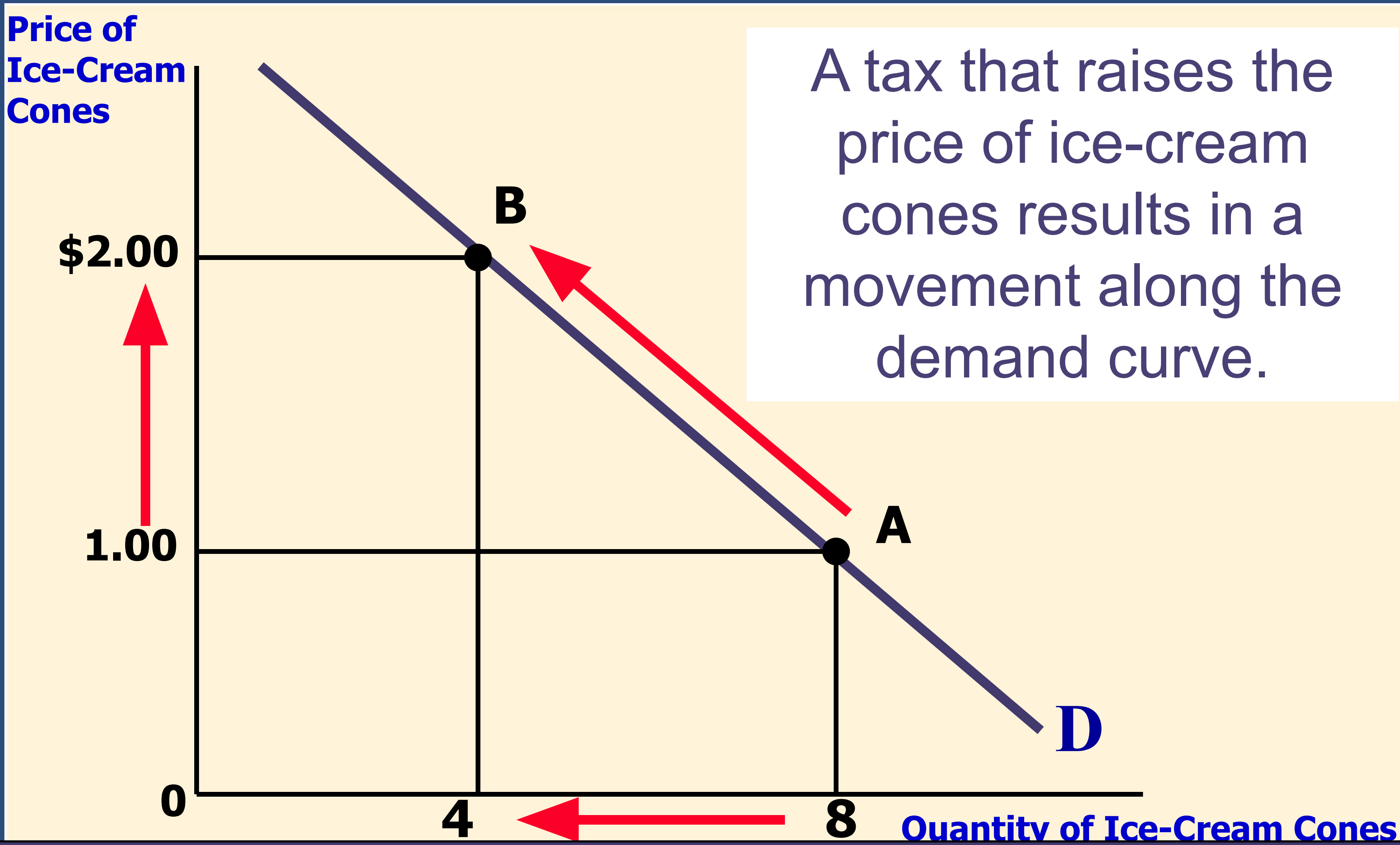
Market Demand versus Individual Demand

- Market demand refers to the sum of all individual demands for a particular good or service.
- Graphically, individual demand curves are summed horizontally to obtain the market demand curve.

Shifts in the Demand Curve

- Change in Quantity Demanded
  - Movement along the demand curve.
  - Caused by a change in the price of the product.

Changes in Quantity Demanded



A tax that raises the price of ice-cream cones results in a movement along the demand curve.

Shifts in the Demand Curve

- Consumer income
- Prices of related goods
- Tastes
- Expectations
- Number of buyers

Shifts in the Demand Curve

- Change in Demand
  - A shift in the demand curve, either to the left or right.
  - Caused by any change that alters the quantity demanded at every price.

Shifts in the Demand Curve

- Consumer Income
  - As income increases the demand for a *normal good* will increase.
  - As income increases the demand for an *inferior good* will decrease.

Shifts in the Demand Curve

- Prices of Related Goods
  - When a fall in the price of one good reduces the demand for another good, the two goods are called *substitutes*.
  - When a fall in the price of one good increases the demand for another good, the two goods are called *complements*.

SUPPLY

- *Quantity supplied* is the amount of a good that sellers are willing and able to sell.
- Law of Supply
    - The *law of supply* states that, other things equal, the quantity supplied of a good rises when the price of the good rises.

The Supply Curve: The Relationship between Price and Quantity Supplied

- Supply Schedule
  - The *supply schedule* is a table that shows the relationship between the price of the good and the quantity supplied.

The Supply Curve: The Relationship between Price and Quantity Supplied

- Supply Curve
  - The *supply curve* is the graph of the relationship between the price of a good and the quantity supplied.

Market Supply versus Individual Supply

- Market supply refers to the sum of all individual supplies for all sellers of a particular good or service.
- Graphically, individual supply curves are summed horizontally to obtain the market supply curve.

Shifts in the Supply Curve

- Input prices
- Technology
- Expectations
- Number of sellers

Shifts in the Supply Curve

- Change in Quantity Supplied
  - Movement along the supply curve.
  - Caused by a change in anything that alters the quantity supplied at each price.

Shifts in the Supply Curve

- Change in Supply
  - A shift in the supply curve, either to the left or right.
  - Caused by a change in a determinant other than price.

SUPPLY AND DEMAND TOGETHER

- *Equilibrium* refers to a situation in which the price has reached the level where quantity supplied equals quantity demanded.

SUPPLY AND DEMAND TOGETHER

- *Equilibrium Price*
  - The price that balances quantity supplied and quantity demanded.
  - On a graph, it is the price at which the supply and demand curves intersect.
- *Equilibrium Quantity*
  - The quantity supplied and the quantity demanded at the equilibrium price.
  - On a graph it is the quantity at which the supply and demand curves intersect.

Equilibrium

- *Surplus*
  - When price > equilibrium price, then quantity supplied > quantity demanded.
    - There is excess supply or a surplus.
    - Suppliers will lower the price to increase sales, thereby moving toward equilibrium.

Equilibrium

- *Shortage*
  - When price < equilibrium price, then quantity demanded > the quantity supplied.
    - There is excess demand or a shortage.
    - Suppliers will raise the price due to too many buyers chasing too few goods, thereby moving toward equilibrium.

Equilibrium

- *Law of supply and demand*
  - The claim that the price of any good adjusts to bring the quantity supplied and the quantity demanded for that good into balance.

THE END!

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