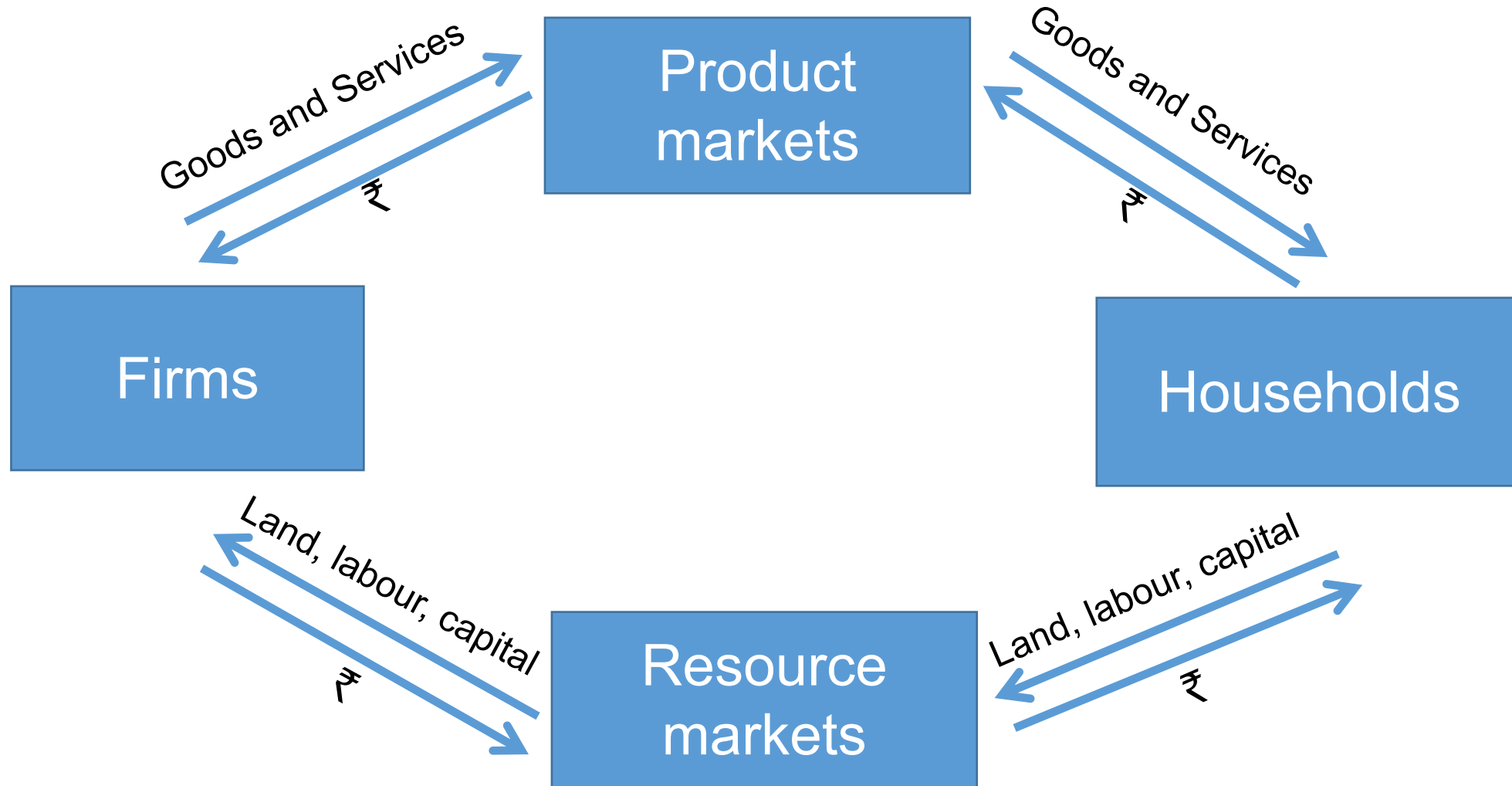


# **BDM: Introduction to Economics**

**The law of demand and supply**

# Circular flow model



# Willingness to pay

- Single customer who is willing to pay Rs 8000 for a smart phone.
- If there is any producer who is willing to sell a phone below Rs 8000, then one phone will be sold in the market

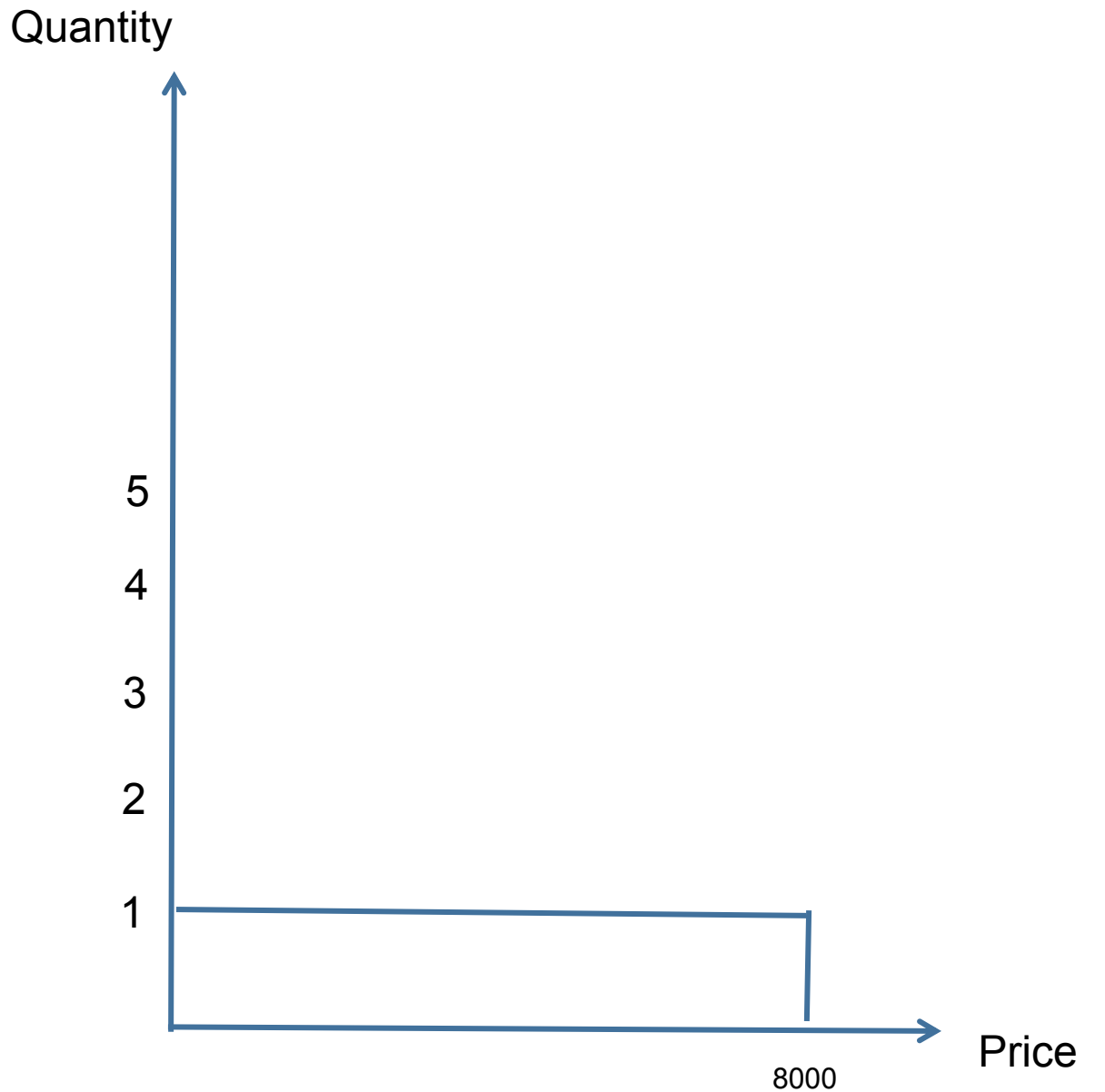
# Willingness to pay

- Single customer who is willing to pay Rs 8000 for a smart phone.
- If there is any producer who is willing to sell a phone below Rs 8000, then one phone will be sold in the market



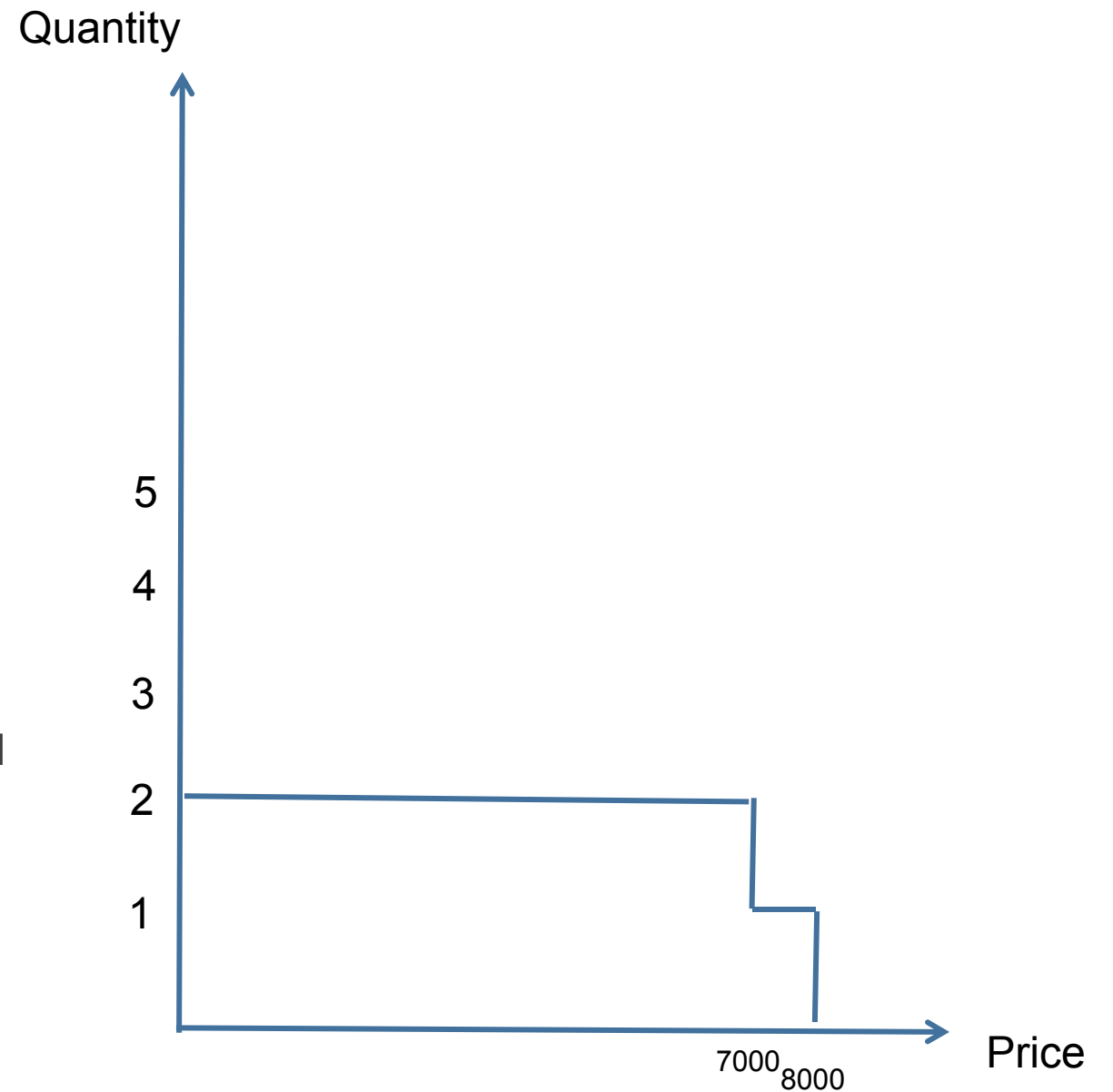
# Willingness to pay

- Single customer who is willing to pay Rs 8000 for a smart phone.
- If there is any producer who is willing to sell a phone below Rs 8000, then one phone will be sold in the market



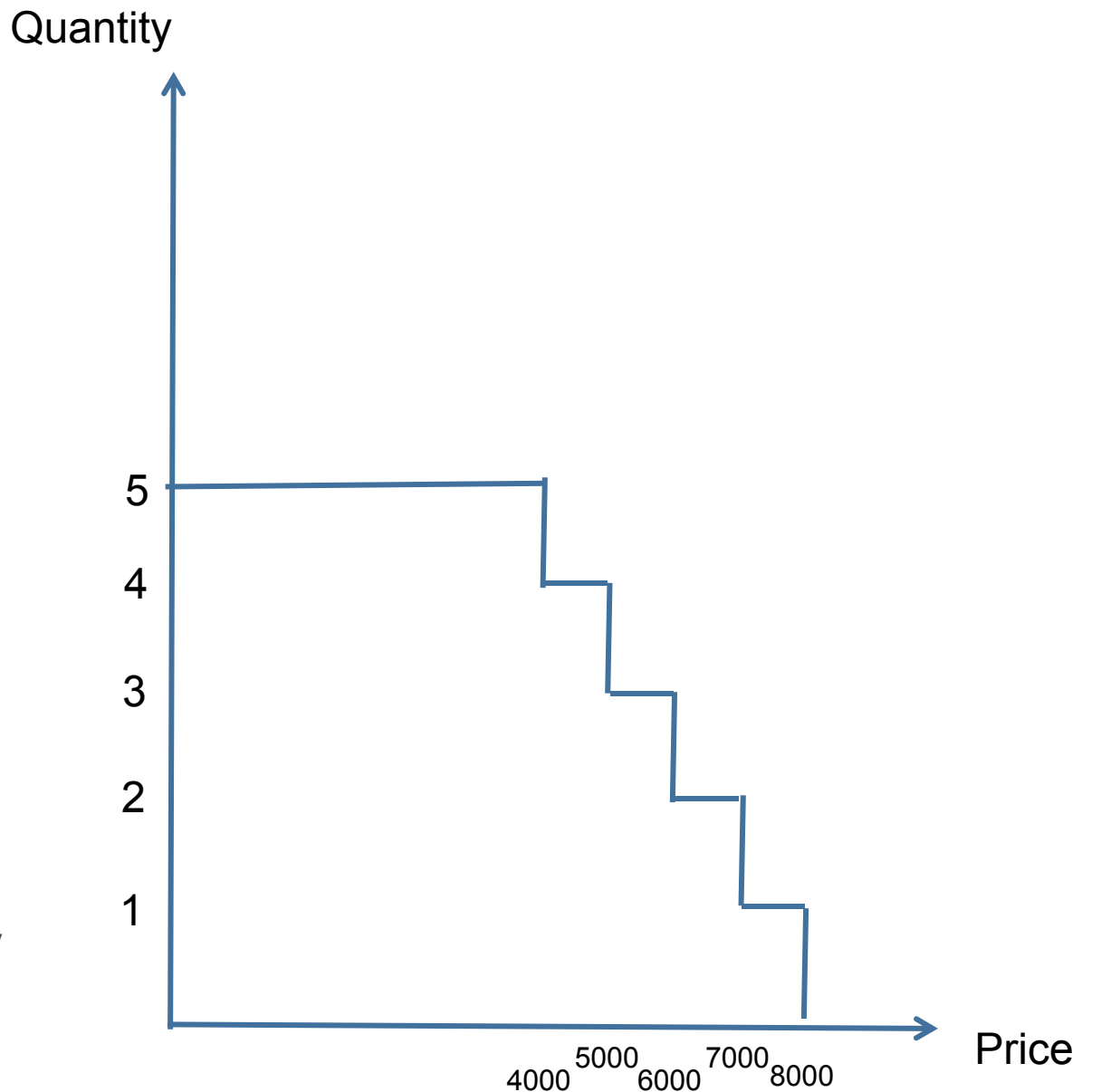
# Willingness to pay

- Single customer who is willing to pay Rs 8000 for a smart phone.
- If there is any producer who is willing to sell a phone below Rs 8000, then one phone will be sold in the market
- If there is another customer who is only willing to pay Rs 7000, then:
  - two phones will be sold in the market only if the price is below Rs 7000.
  - between 7000-8000, only one phone will be sold
  - above 8000, no phones will be sold



# Willingness to pay

- Single customer who is willing to pay Rs 8000 for a smart phone.
- If there is any producer who is willing to sell a phone below Rs 8000, then one phone will be sold in the market
- If there is another customer who is only willing to pay Rs 7000, then:
  - two phones will be sold in the market only if the price is below Rs 7000.
  - between 7000-8000, only one phone will be sold
  - above 8000, no phones will be sold
- If there are 5 customers with willingness to pay:
  - at Rs 4000, 5000, 6000, 7000, 8000 respectively
  - then the demand for phones will be as shown in the figure



# Demand vs Price

- The amount of wheat that a single customer will buy at different prices is shown in the table below:

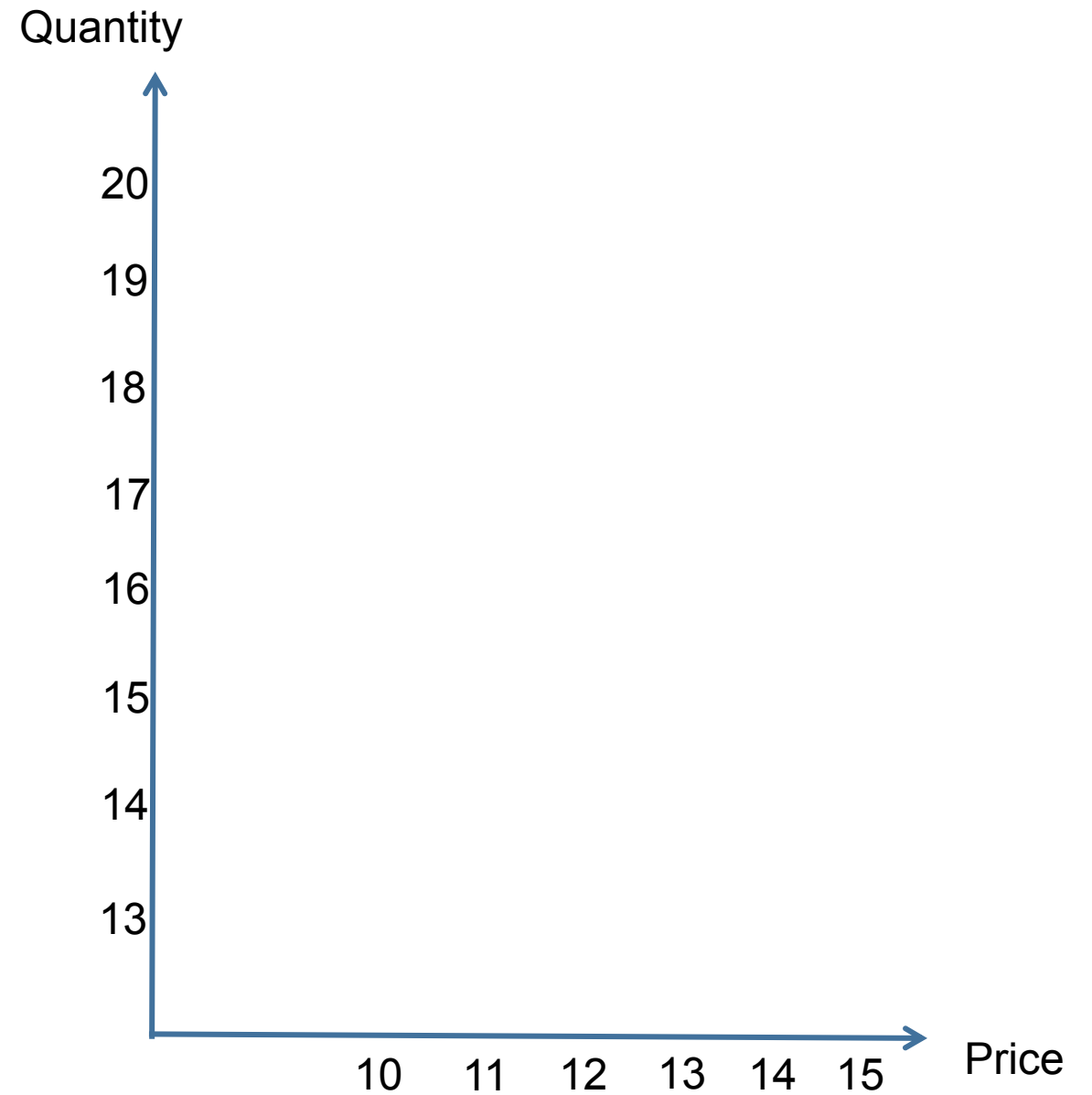
Price in Rs/Kg	Quantity (kg)
10	20
11	18
12	16
13	15
14	14
15	13



# Demand vs Price

- The amount of wheat that a single customer will buy at different prices is shown in the table below:

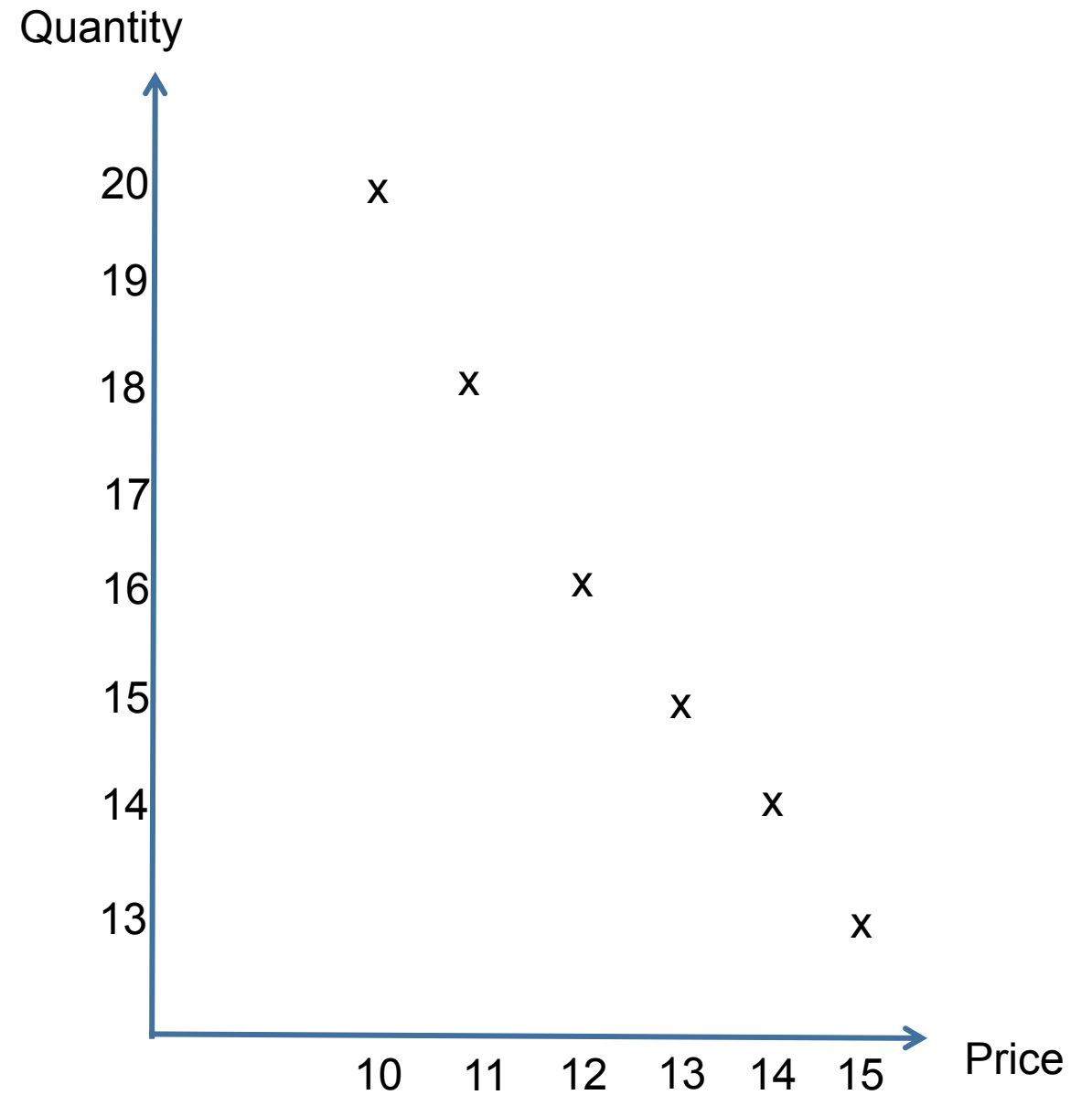
Price in Rs/Kg	Quantity (kg)
10	20
11	18
12	16
13	15
14	14
15	13



# Demand vs Price

- The amount of wheat that a single customer will buy at different prices is shown in the table below:

Price in Rs/Kg	Quantity (kg)
10	20
11	18
12	16
13	15
14	14
15	13

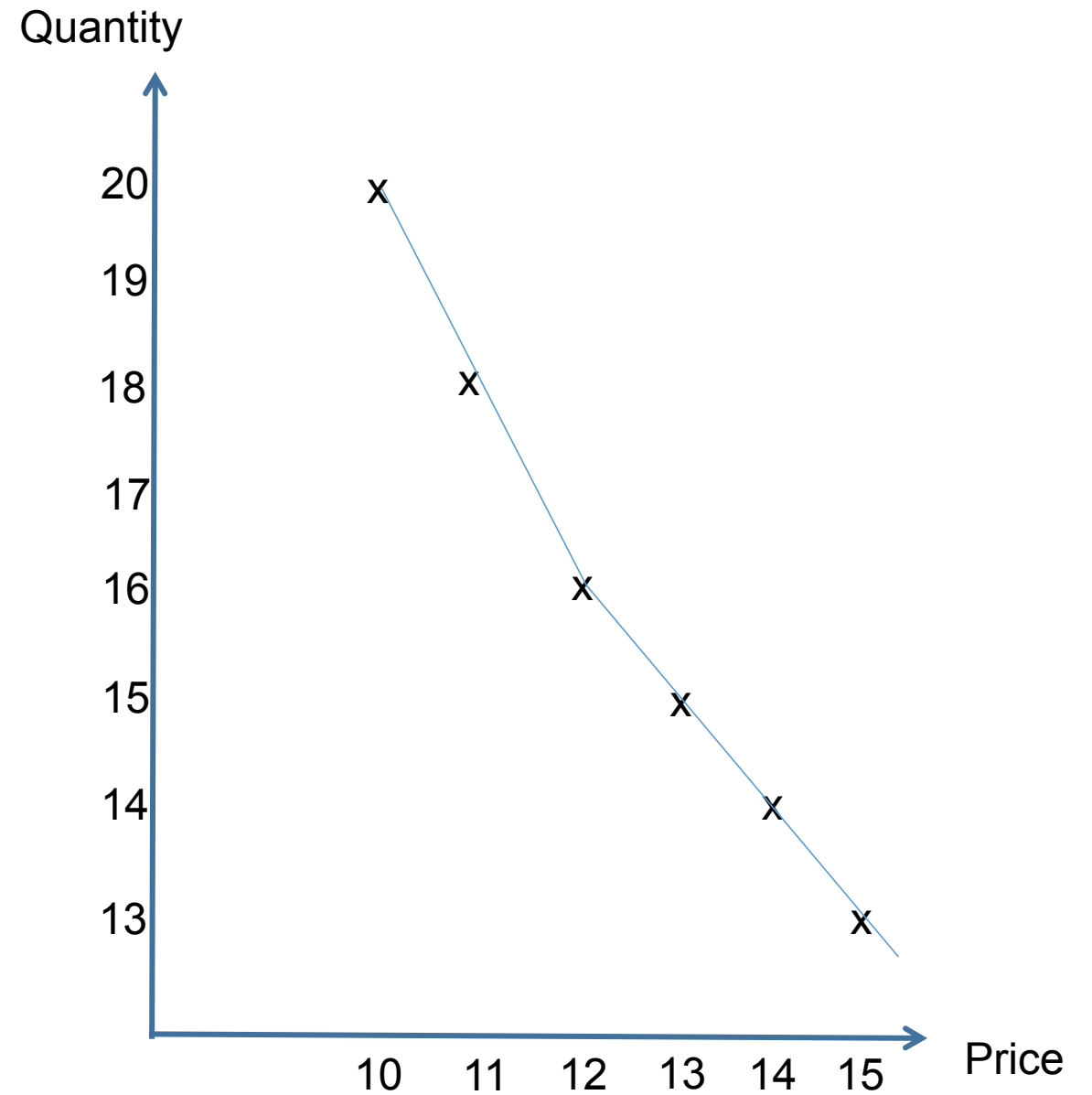


# Demand vs Price

- The amount of wheat that a single customer will buy at different prices is shown in the table below:

Price in Rs/Kg	Quantity (kg)
10	20
11	18
12	16
13	15
14	14
15	13

Price  $\uparrow \Rightarrow$  Demand  $\downarrow$   
Price  $\downarrow \Rightarrow$  Demand  $\uparrow$



# Supply vs Price

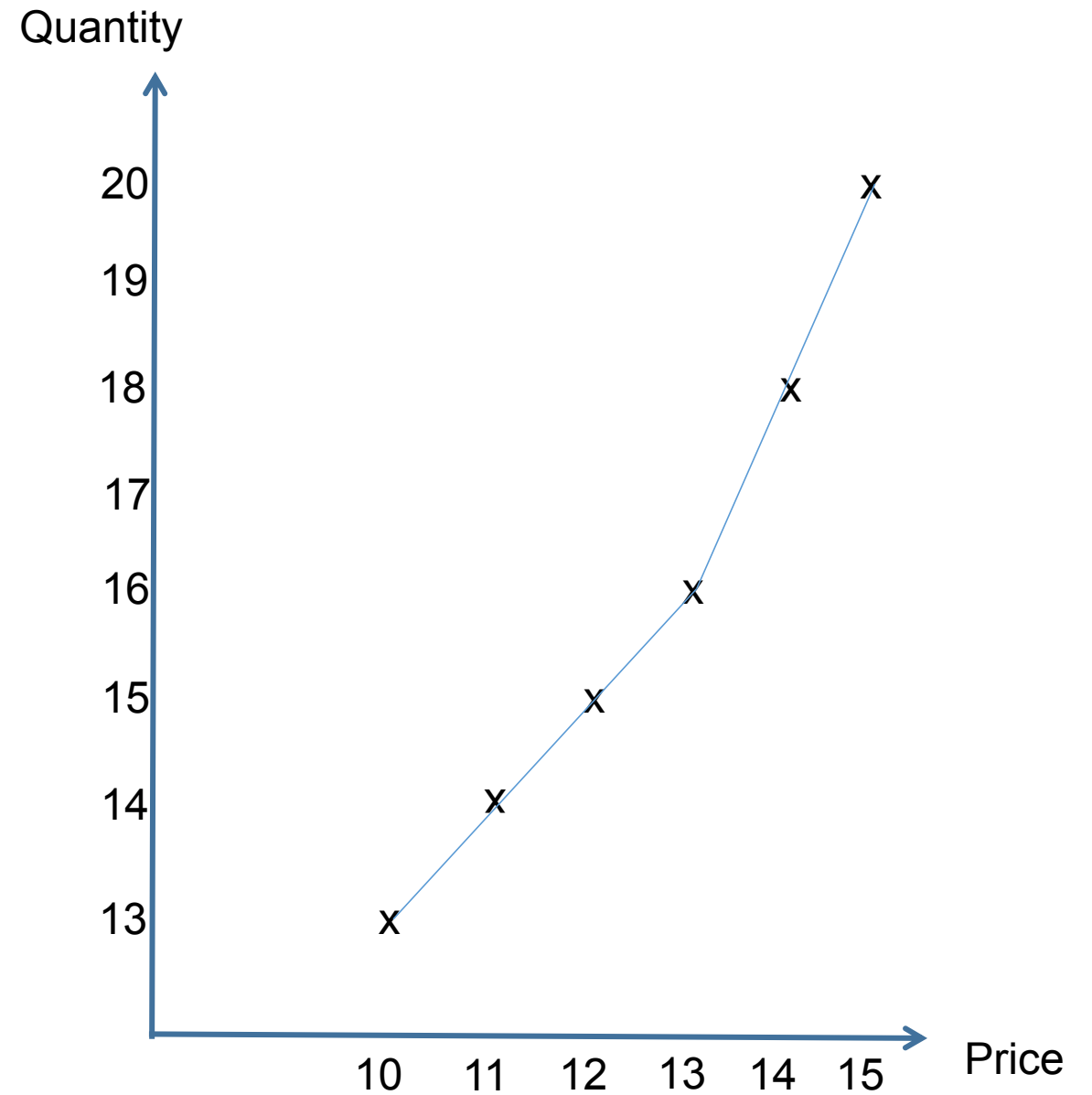
- The amount of wheat that a single producer will sell at different prices is shown in the table below:

Price in Rs/Kg	Quantity (kg)
10	13
11	14
12	15
13	16
14	18
15	20

# Supply vs Price

- The amount of wheat that a single producer will sell at different prices is shown in the table below:

Price in Rs/Kg	Quantity (kg)
10	13
11	14
12	15
13	16
14	18
15	20

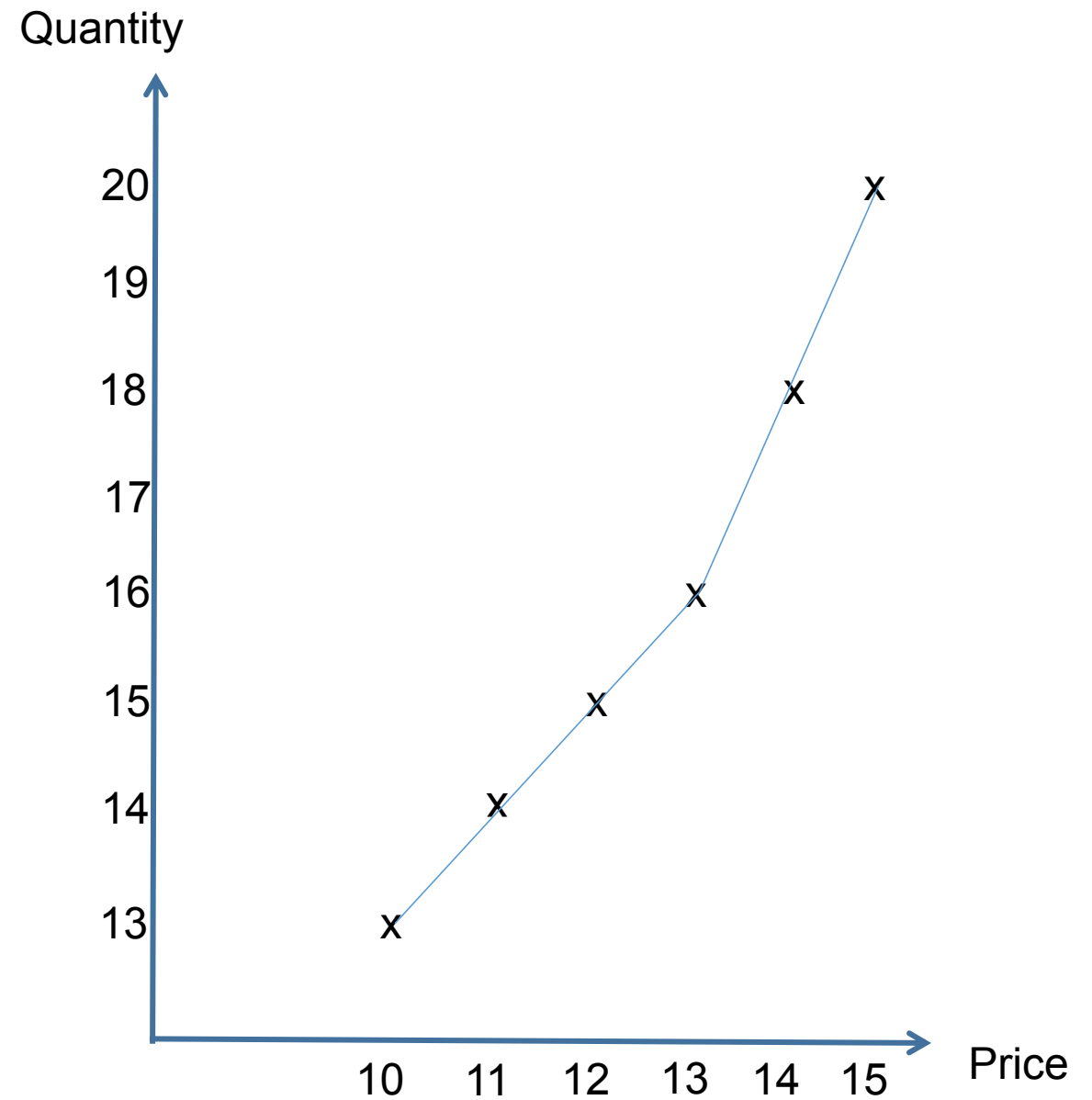


# Supply vs Price

- The amount of wheat that a single producer will sell at different prices is shown in the table below:

Price in Rs/Kg	Quantity (kg)
10	13
11	14
12	15
13	16
14	18
15	20

Price  $\uparrow \Rightarrow$  Supply  $\uparrow$   
Price  $\downarrow \Rightarrow$  Supply  $\downarrow$



# Demand Vs Supply

- The combined table showing demand and supply at each price point is shown below:

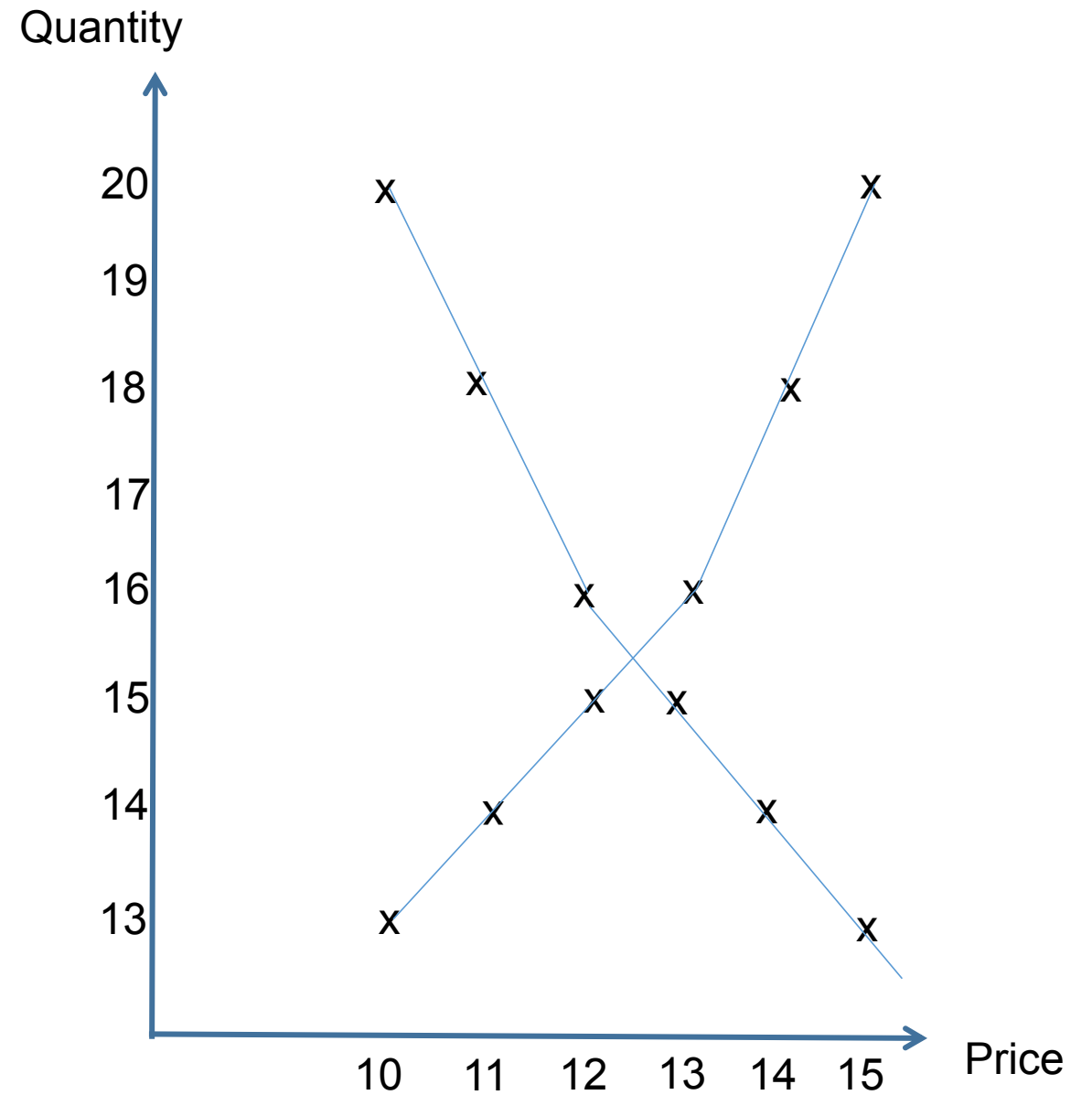
Price in Rs/Kg	Demand Quantity (kg)	Supply Quantity (kg)
10	20	13
11	18	14
12	16	15
13	15	16
14	14	18
15	13	20

# Demand Vs Supply

- The combined table showing demand and supply at each price point is shown below:

Price in Rs/Kg	Demand Quantity (kg)	Supply Quantity (kg)
10	20	13
11	18	14
12	16	15
13	15	16
14	14	18
15	13	20

Price  $\uparrow \Rightarrow$  Demand  $\downarrow$  & Supply  $\uparrow$   
Price  $\downarrow \Rightarrow$  Demand  $\uparrow$  & Supply  $\downarrow$



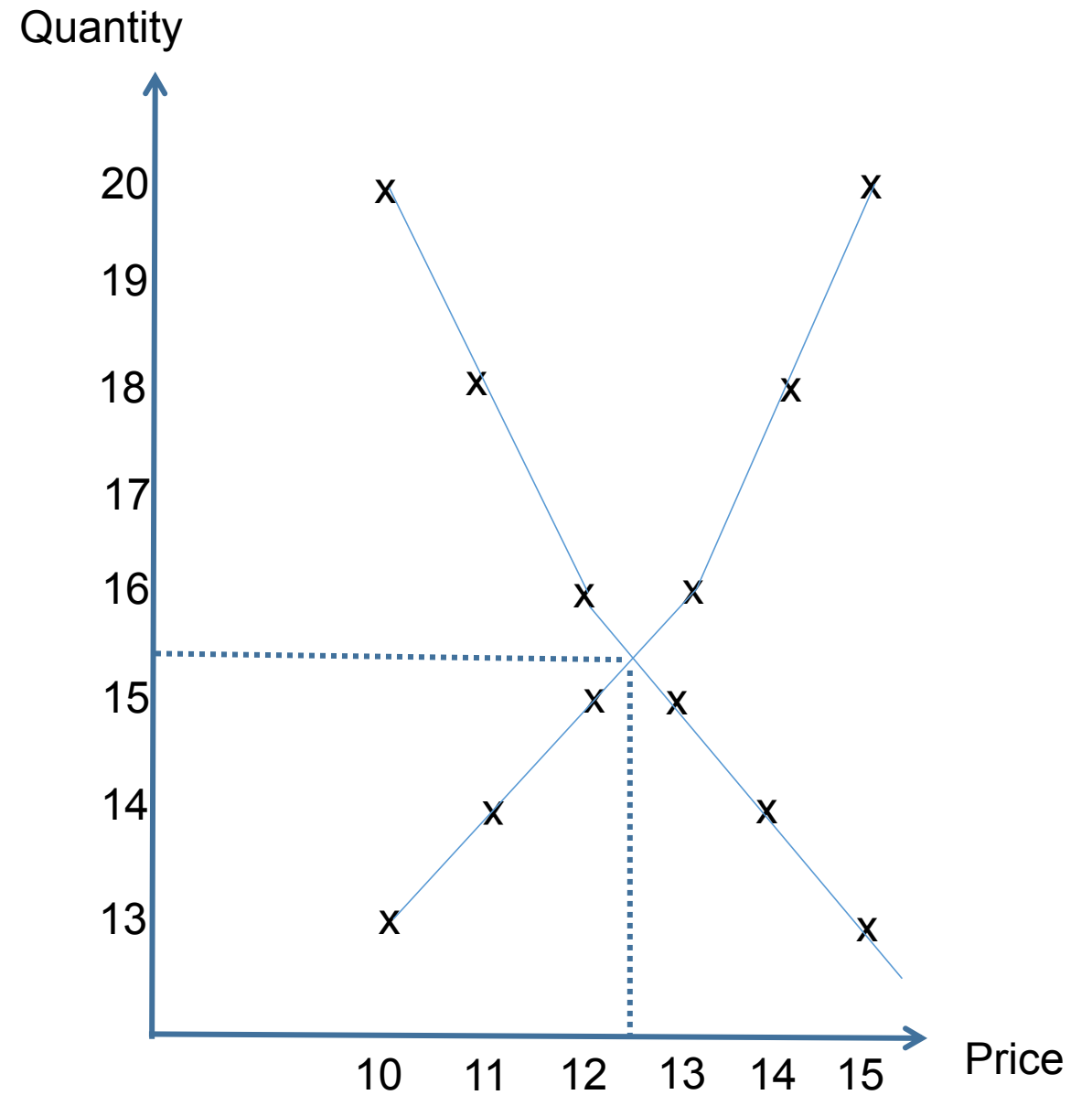


# Demand Vs Supply

- The combined table showing demand and supply at each price point is shown below:

Price in Rs/Kg	Demand Quantity (kg)	Supply Quantity (kg)
10	20	13
11	18	14
12	16	15
13	15	16
14	14	18
15	13	20

*Equilibrium price = Rs 12.5*  
*Equilibrium quantity = 15.5 Kg*

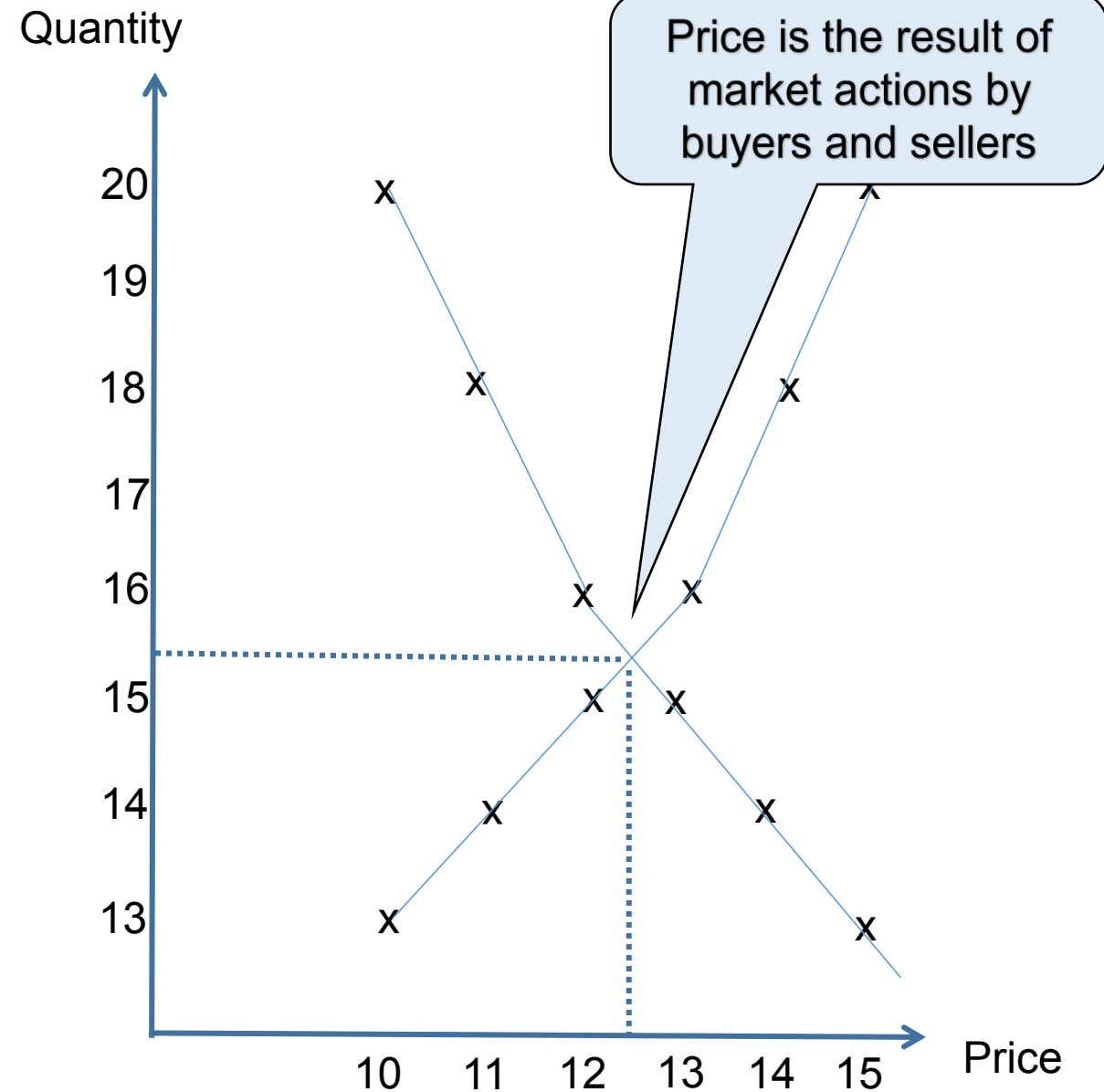


# Demand Vs Supply

- The combined table showing demand and supply at each price point is shown below:

Price in Rs/Kg	Demand Quantity (kg)	Supply Quantity (kg)
10	20	13
11	18	14
12	16	15
13	15	16
14	14	18
15	13	20

*Equilibrium price = Rs 12.5*  
*Equilibrium quantity = 15.5 Kg*



# Price Vs Demand

- Quantity based discount table: if customer buys higher quantity, the seller is willing to offer a lower price - as shown in the table below:

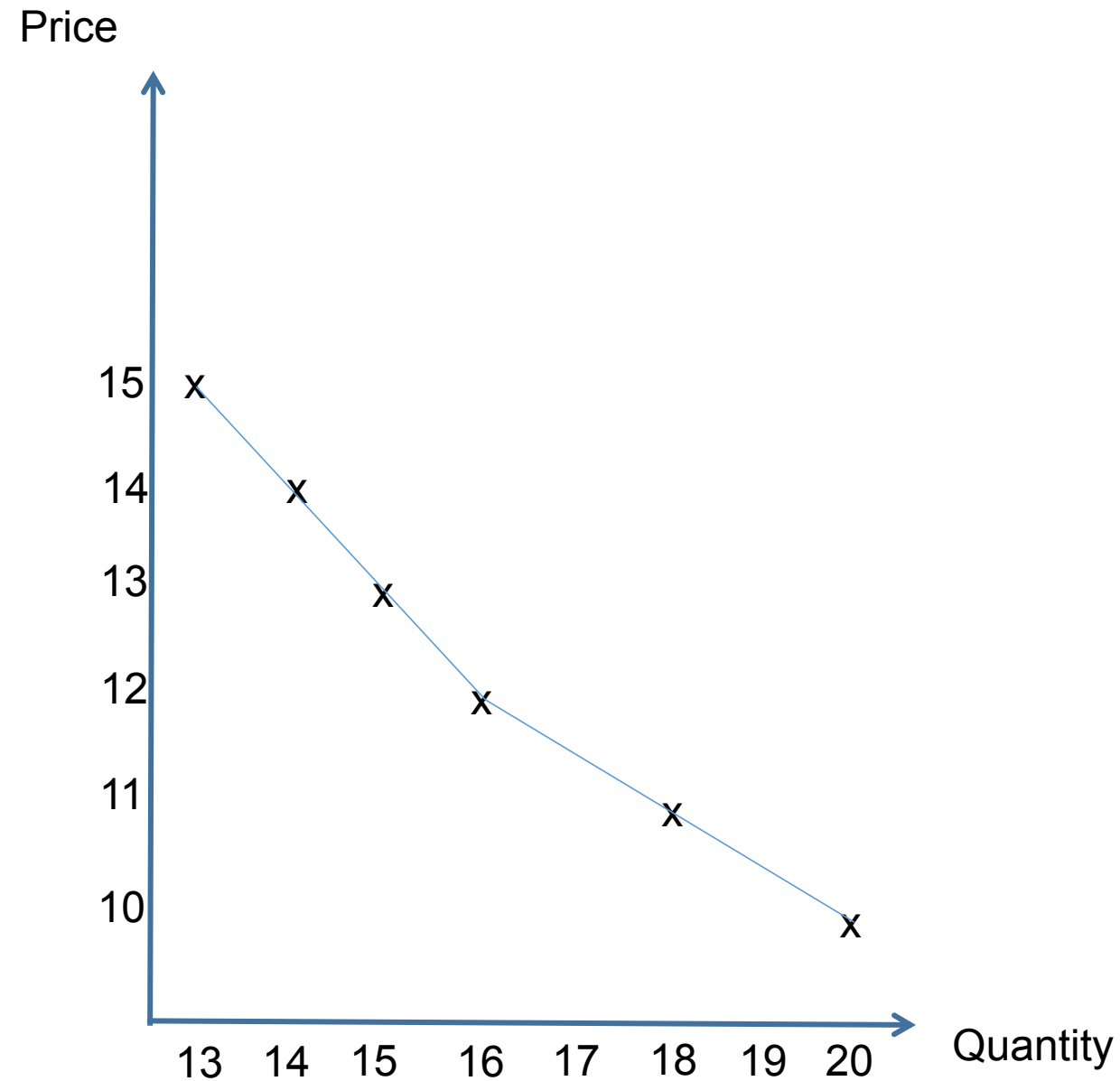
Quantity (kg)	Price in Rs/Kg
20	10
18	11
16	12
15	13
14	14
13	15

Which is why we sometimes represent price as a result of demand

# Price Vs Demand

- Quantity based discount table: if customer buys higher quantity, the seller is willing to offer a lower price - as shown in the table below:

Quantity (kg)	Price in Rs/Kg
20	10
18	11
16	12
15	13
14	14
13	15

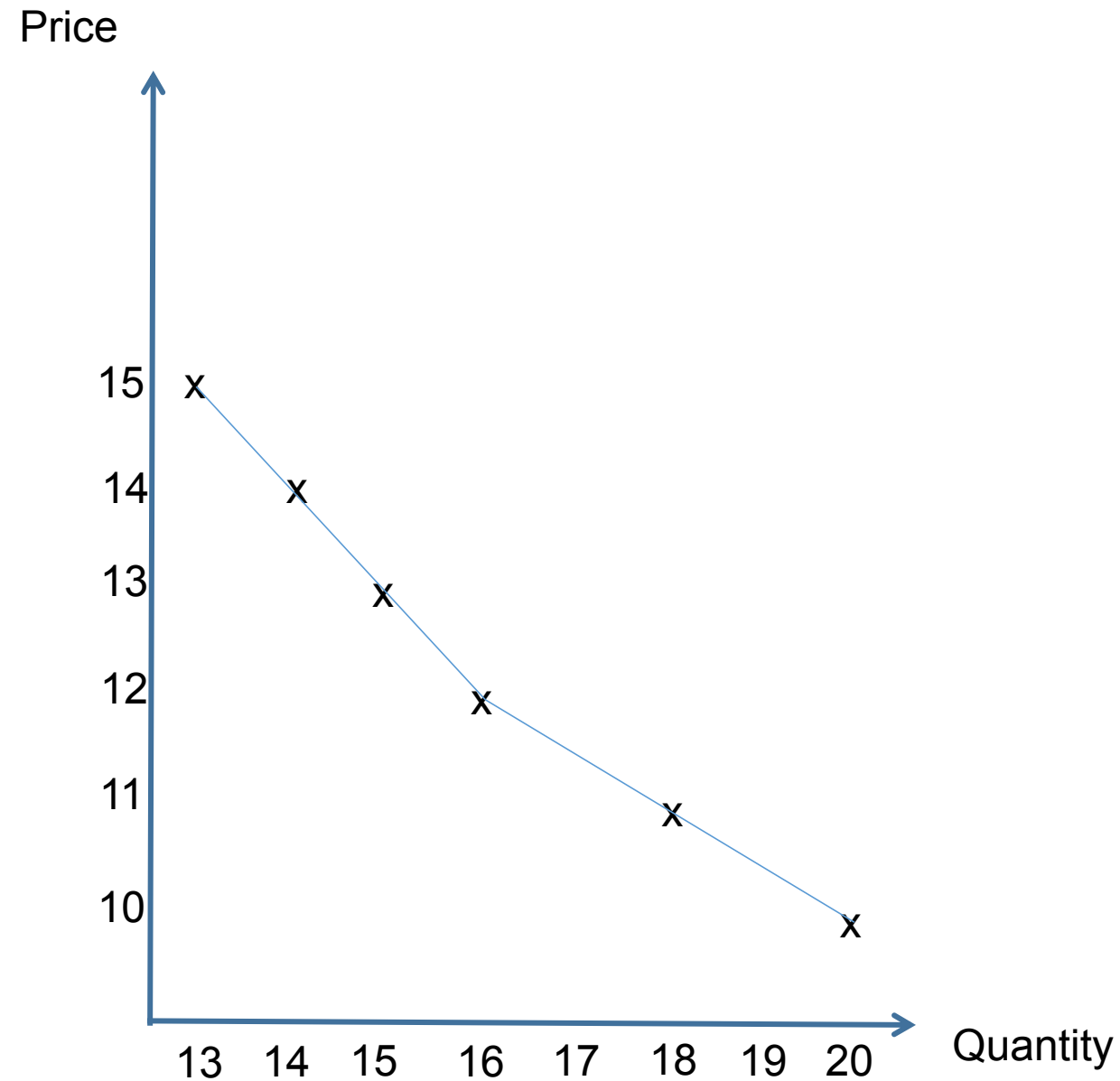


# Price Vs Demand

- Quantity based discount table: if customer buys higher quantity, the seller is willing to offer a lower price - as shown in the table below:

Quantity (kg)	Price in Rs/Kg
20	10
18	11
16	12
15	13
14	14
13	15

Demand  $\uparrow \Rightarrow$  Price  $\downarrow$   
Demand  $\downarrow \Rightarrow$  Price  $\uparrow$



# Effect of income

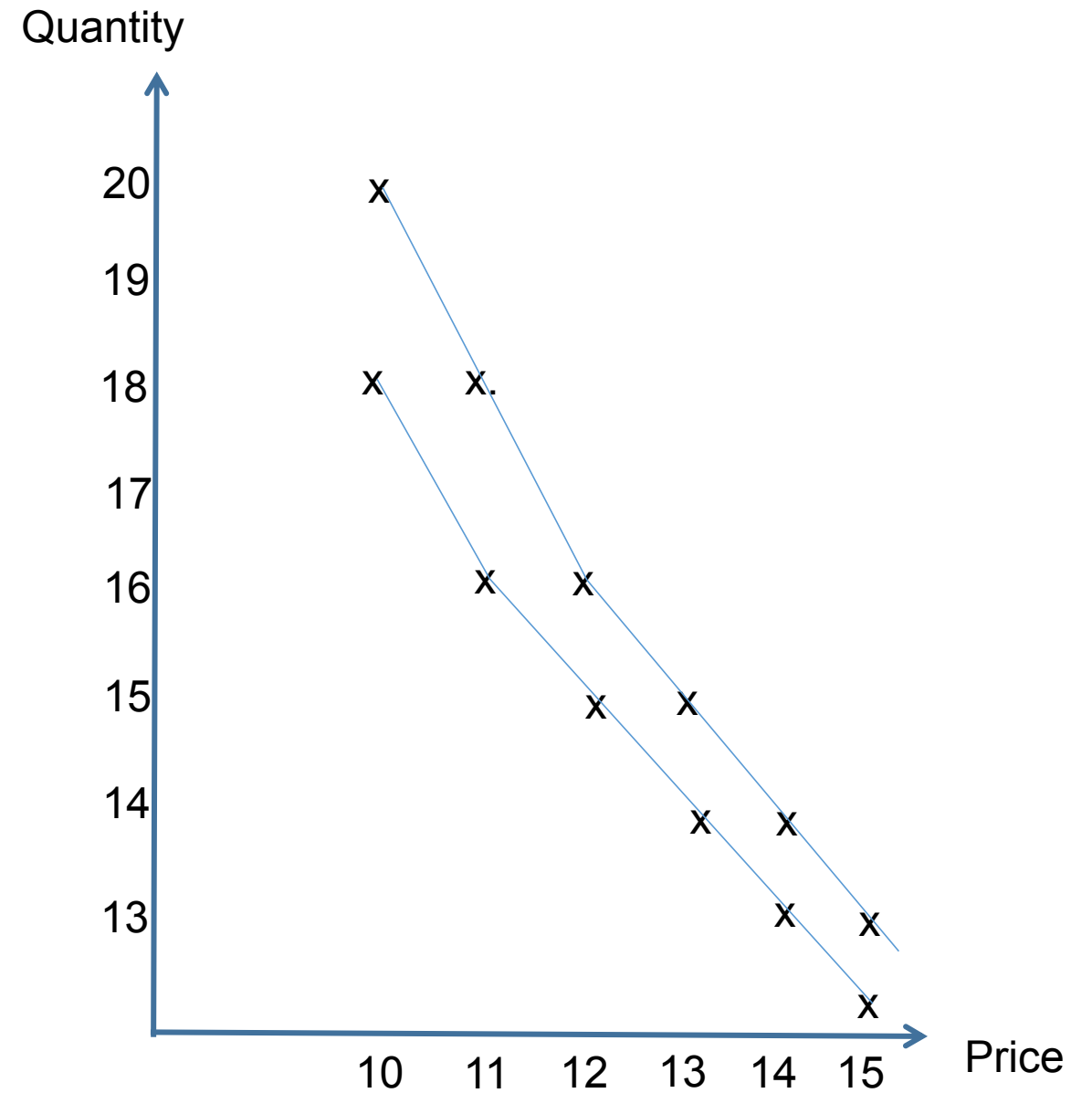
- The amount of wheat that two customers with slightly different incomes will buy at different prices is shown in the table below:

Price in Rs/Kg	Quantity High income (kg)	Quantity Low income (kg)
10	20	18
11	18	16
12	16	15
13	15	14
14	14	13
15	13	12

# Effect of income

- The amount of wheat that two customers with slightly different incomes will buy at different prices is shown in the table below:

Price in Rs/Kg	Quantity High income (kg)	Quantity Low income (kg)
10	20	18
11	18	16
12	16	15
13	15	14
14	14	13
15	13	12

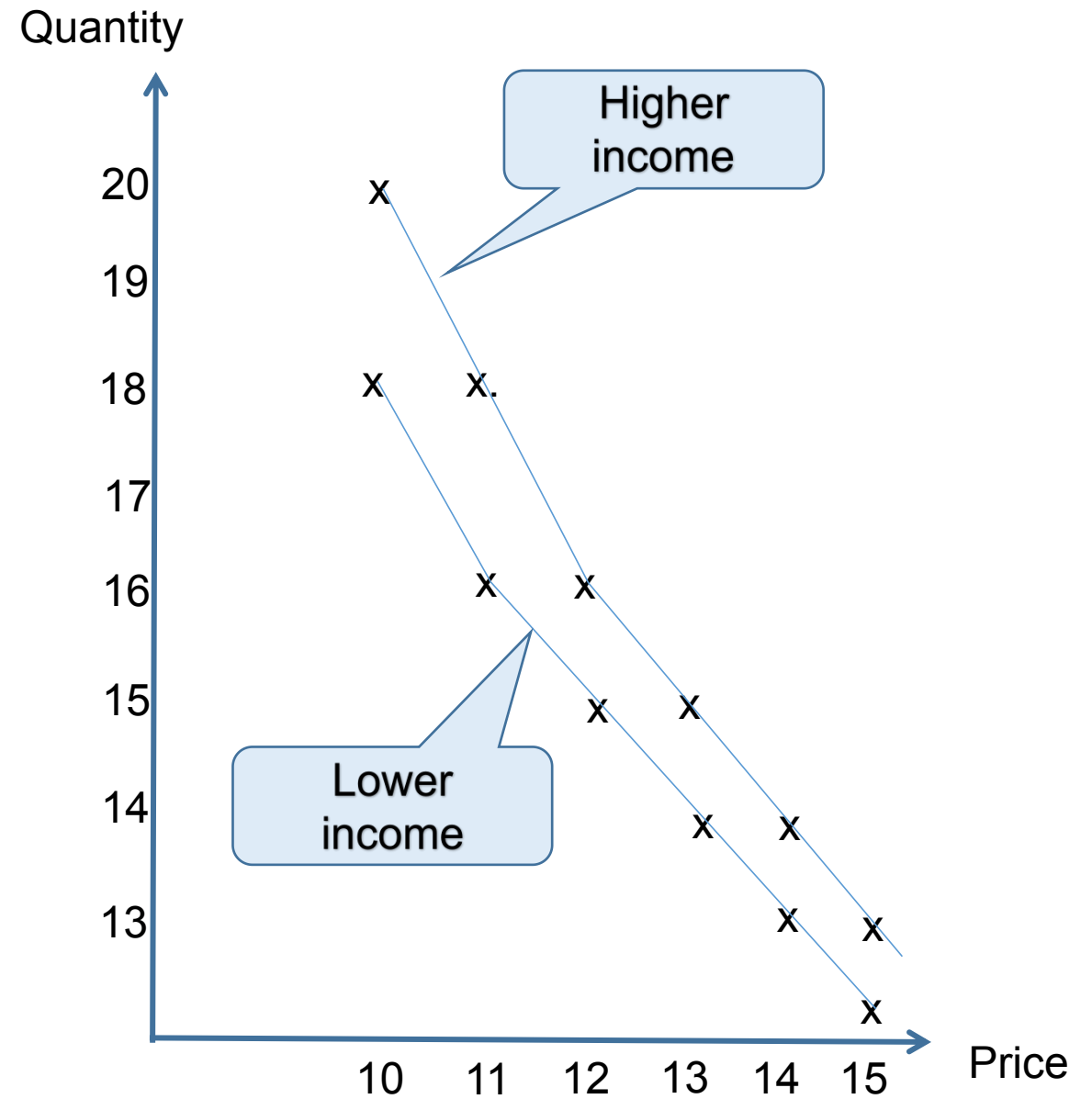


# Effect of income

- The amount of wheat that two customers with slightly different incomes will buy at different prices is shown in the table below:

Price in Rs/Kg	Quantity High income (kg)	Quantity Low income (kg)
10	20	18
11	18	16
12	16	15
13	15	14
14	14	13
15	13	12

Income  $\uparrow$   $\Rightarrow$  Demand  $\uparrow$   
Income  $\downarrow$   $\Rightarrow$  Demand  $\downarrow$





# Effect of income

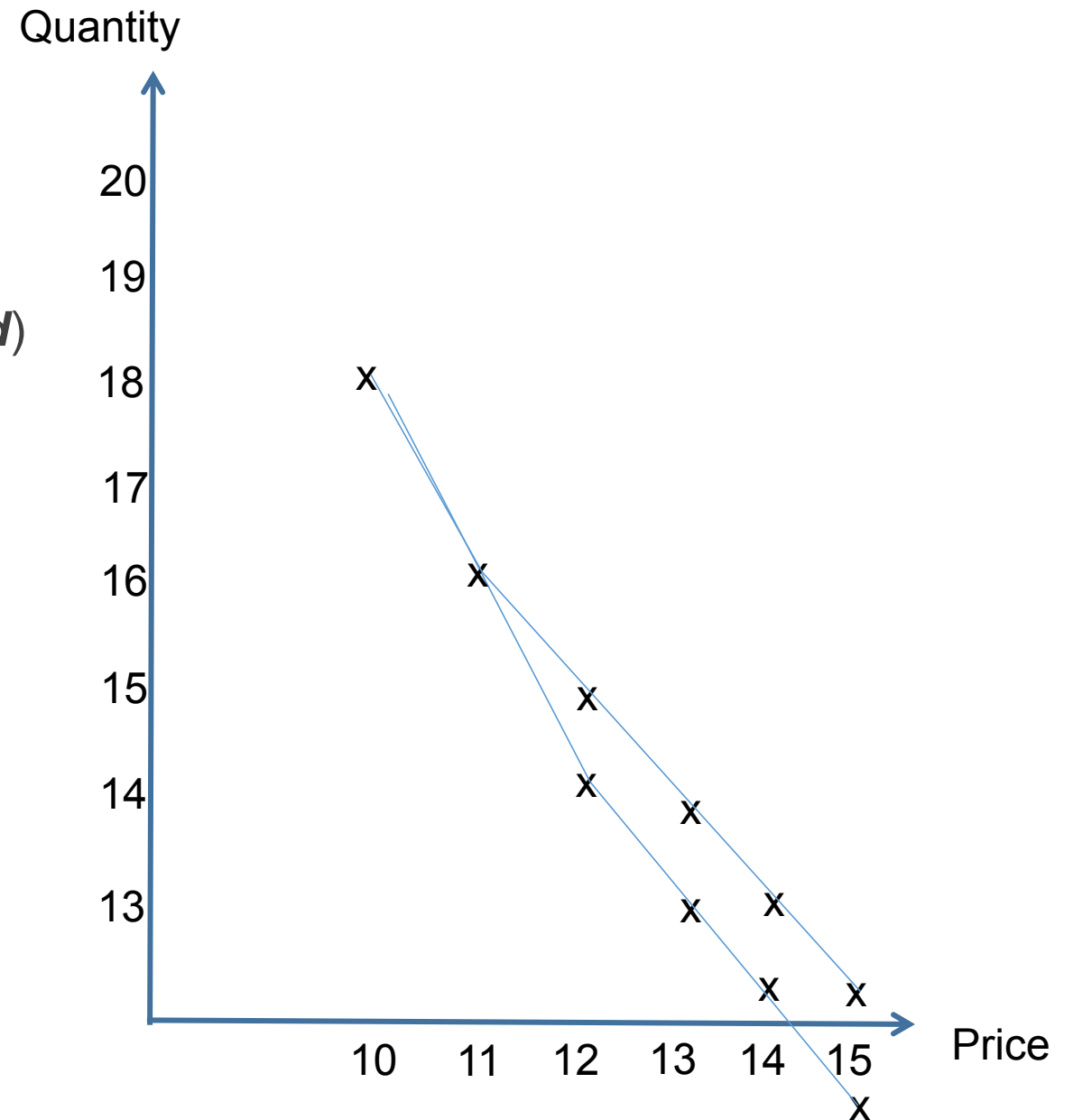
- It is also possible that at higher income, customers may choose to buy rice rather than wheat, in which case demand for wheat may fall (if this happens, wheat is called an *inferior good*)

Price in Rs/Kg	Quantity High income (kg)	Quantity Low income (kg)
10	18	18
11	16	16
12	14	15
13	13	14
14	12	13
15	11	12

# Effect of income

- It is also possible that at higher income, customers may choose to buy rice rather than wheat, in which case demand for wheat may fall (if this happens, wheat is called an ***inferior good***)

Price in Rs/Kg	Quantity High income (kg)	Quantity Low income (kg)
10	18	18
11	16	16
12	14	15
13	13	14
14	12	13
15	11	12

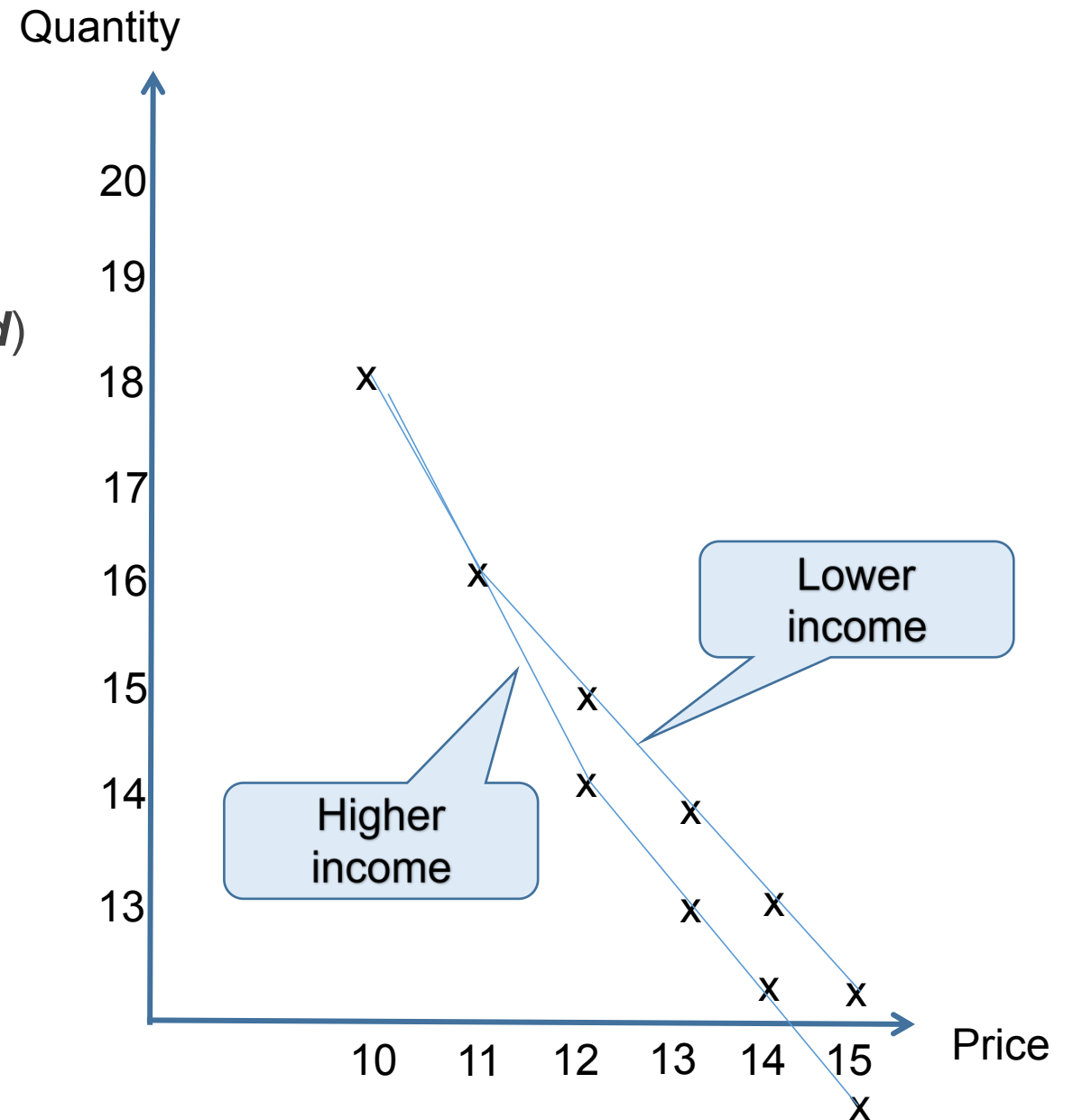


# Effect of income

- It is also possible that at higher income, customers may choose to buy rice rather than wheat, in which case demand for wheat may fall (if this happens, wheat is called an ***inferior good***)

Price in Rs/Kg	Quantity High income (kg)	Quantity Low income (kg)
10	18	18
11	16	16
12	14	15
13	13	14
14	12	13
15	11	12

Income  $\uparrow \Rightarrow$  Demand  $\downarrow$   
Income  $\downarrow \Rightarrow$  Demand  $\uparrow$



**End of Intro**