

CHAPTER 3

*Appendix 1
Additional Examples of Supply and Demand*

*PowerPoint Presentation Prepared by:
Adian McFarlane, King's University
College at Western University*

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MICROECONOMICS



McCONNELL FLYNN BRUE BARBIERO ESLAMI

LEARNING OBJECTIVES

LOA3.1 Use supply-and-demand analysis to analyze specific real-world situations.

INTRODUCTION

- Supply-and-demand analysis is a powerful tool for understanding equilibrium prices and quantities.
- The information in this chapter is sufficient for moving forward in the book, but you may find additional examples of supply and demand helpful.
- This appendix provides several concrete illustrations of changes in supply and demand.

A3.1 Additional Examples of Supply and Demand 1/3

Changes in Supply and Demand

- Changes in supply or demand lead to changes in price, quantity, or both.
- Real-world markets provide examples of how these changes occur.
- The most straightforward cases involve either a change in supply with constant demand or a change in demand with constant supply.

FIGURE A3-1 The Market for Lettuce

- Extreme weather reduces crop supply, shifting the supply curve leftward and raising the equilibrium price.
- The price increase leads to a decrease in the quantity of lettuce demanded.
- Some consumers continue to buy at the higher price, while others reduce consumption or switch to alternatives.

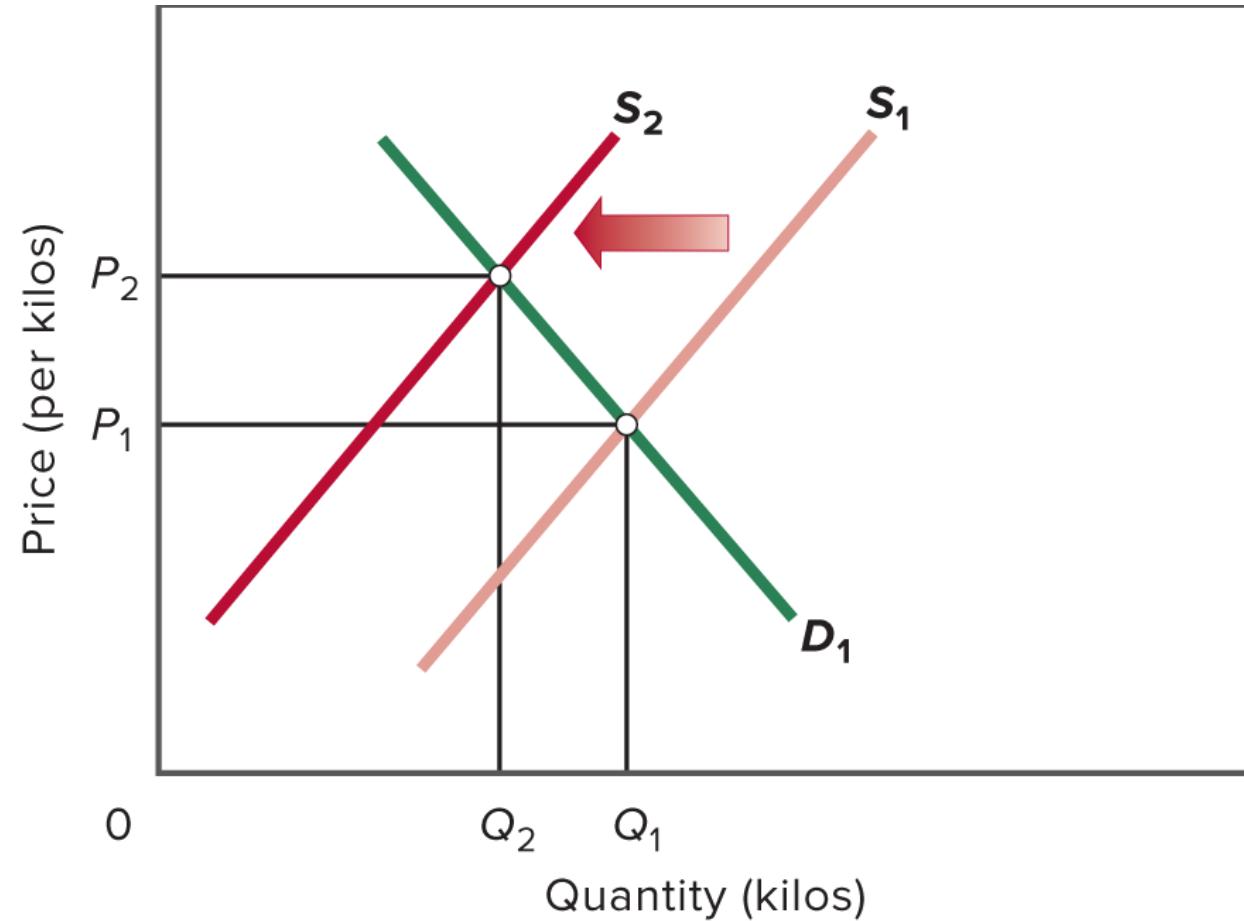


FIGURE A3-2 The Market for Pink Salmon

- Increased supply and decreased demand for pink salmon led to a significant drop in its price.
- Technological advancements and new entrants boosted supply, shifting the supply curve rightward.
- Despite reduced demand, the equilibrium quantity increased due to the larger supply increase.

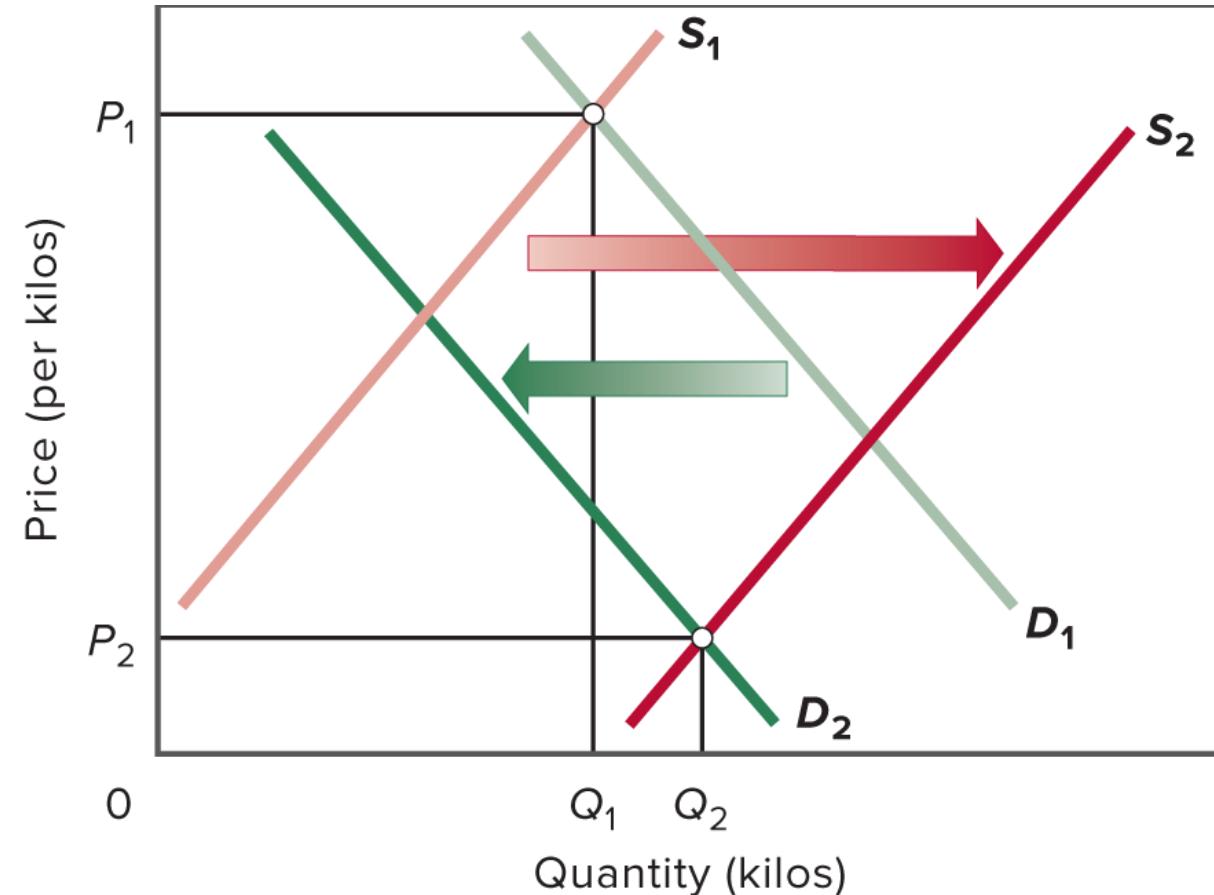
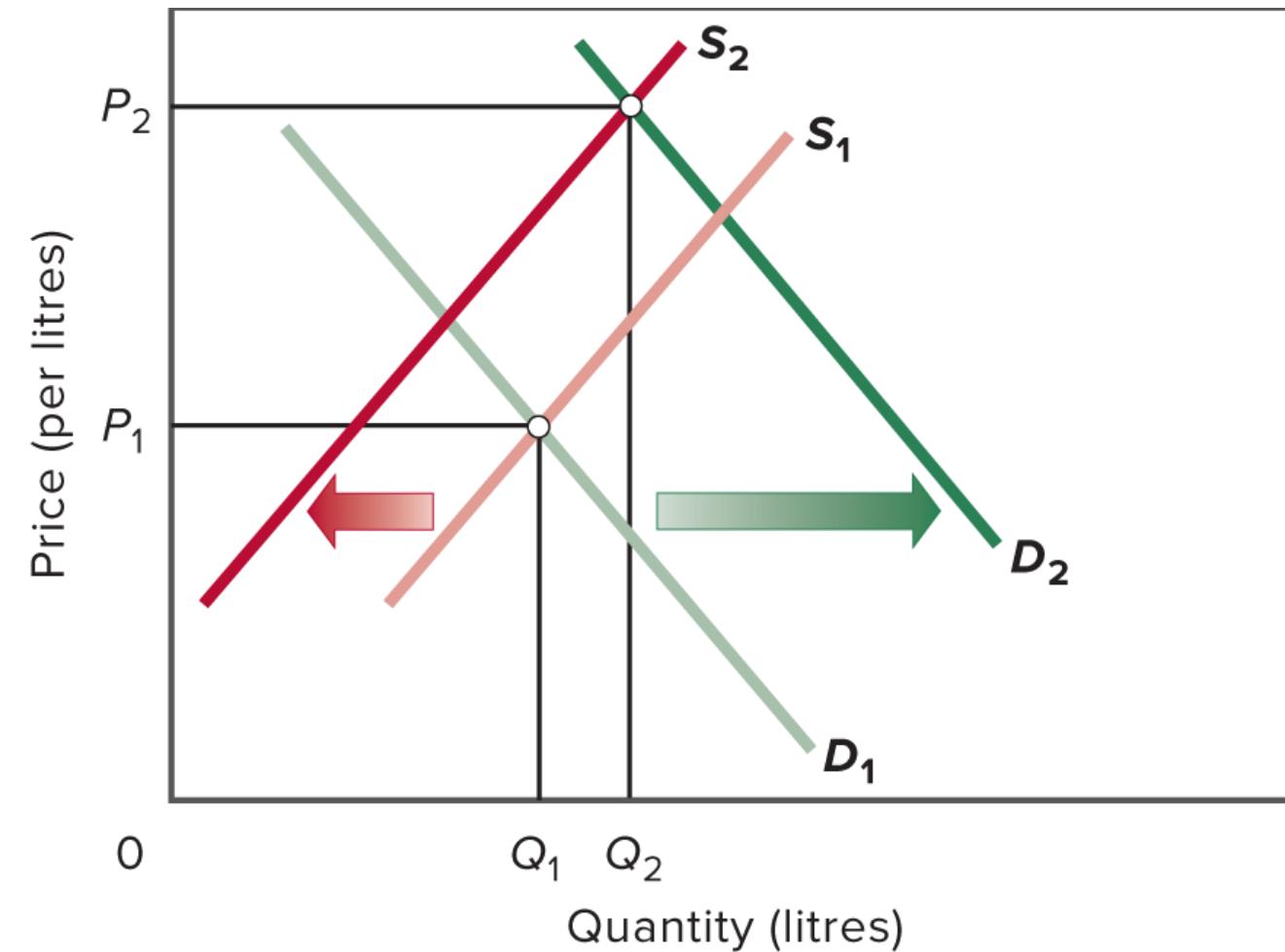


FIGURE A3-3 The Market for Gasoline

- The price of gasoline in Canada rose sharply from \$0.80 to \$1.35 per litre between April 2020 and July 2021.
- Supply uncertainties and rising oil prices reduced gasoline supply while increasing incomes boosted demand.
- The combination of lower supply and higher demand led to higher prices and an increased equilibrium quantity.



A3.1 Additional Examples of Supply and Demand 2/3

Upward-Sloping Supply Curves

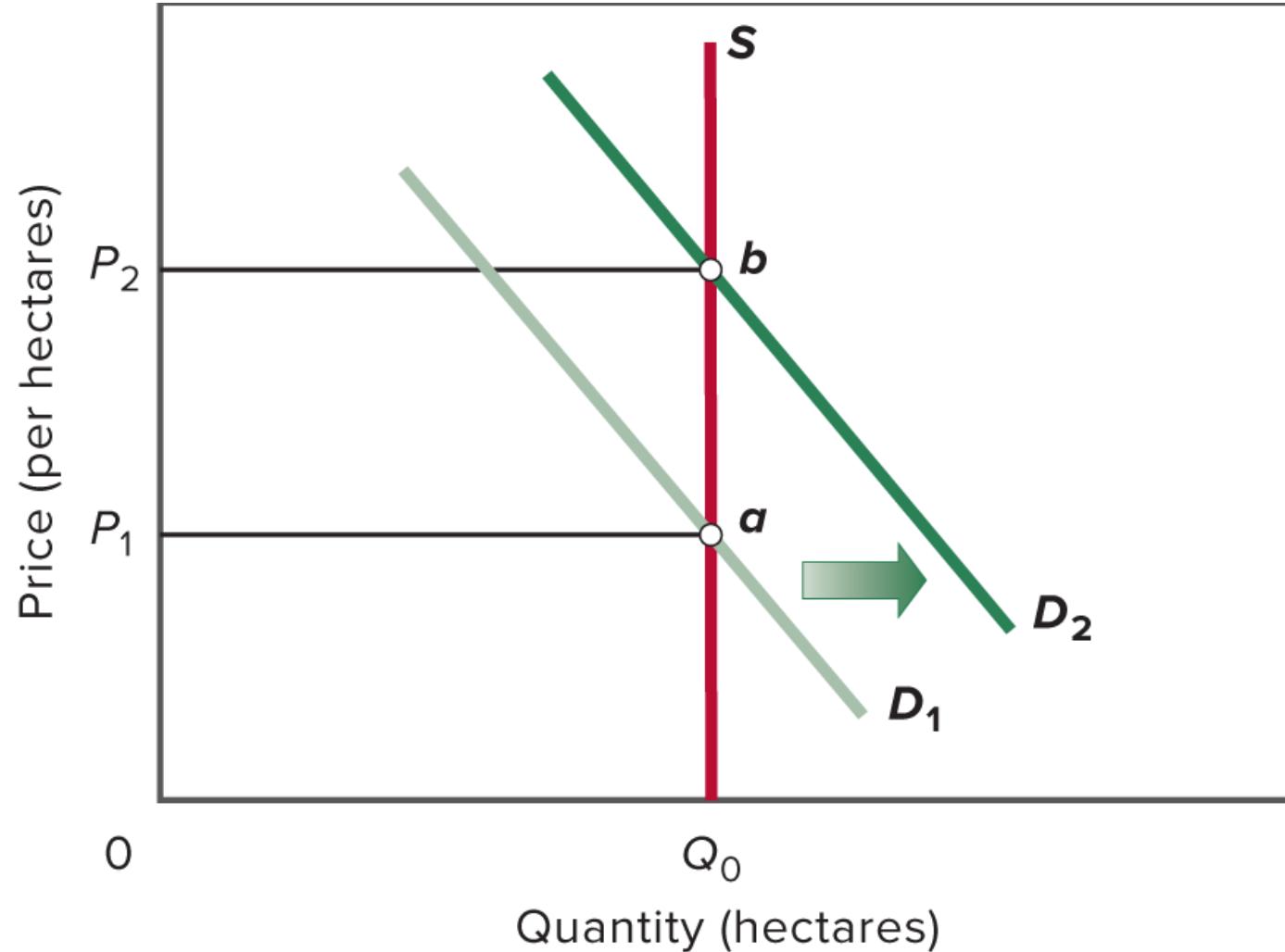
- Any shift in demand will cause both the equilibrium price and quantity to adjust.

Vertical Supply Curves

- Any shift in demand will cause only the equilibrium price to change.

FIGURE A3-4 The Market for Land in Vancouver

- The fixed supply of land in Vancouver means any increase in demand leads only to higher prices.
- An increase in demand raises the equilibrium price from P_1 to P_2 without changing the quantity.
- This explains Vancouver's high real estate prices and other major cities.



A3.1 Additional Examples of Supply and Demand 3/3

- **Preset Prices**
 - An effective price ceiling creates a shortage by making quantity demanded exceed quantity supplied.
 - An effective price floor creates a surplus by making quantity supplied exceed quantity demanded.
 - Market imbalances, like shortages and surpluses, can also occur when sellers set prices that differ from equilibrium prices.

FIGURE A3-5 The Market for Tickets to Olympic Women's Figure Skating Finals

- High demand and preset prices create a ticket shortage in the primary market.
- The shortage leads to higher prices in a secondary market.
- Fixed supply and strong demand cause demand to exceed supply.

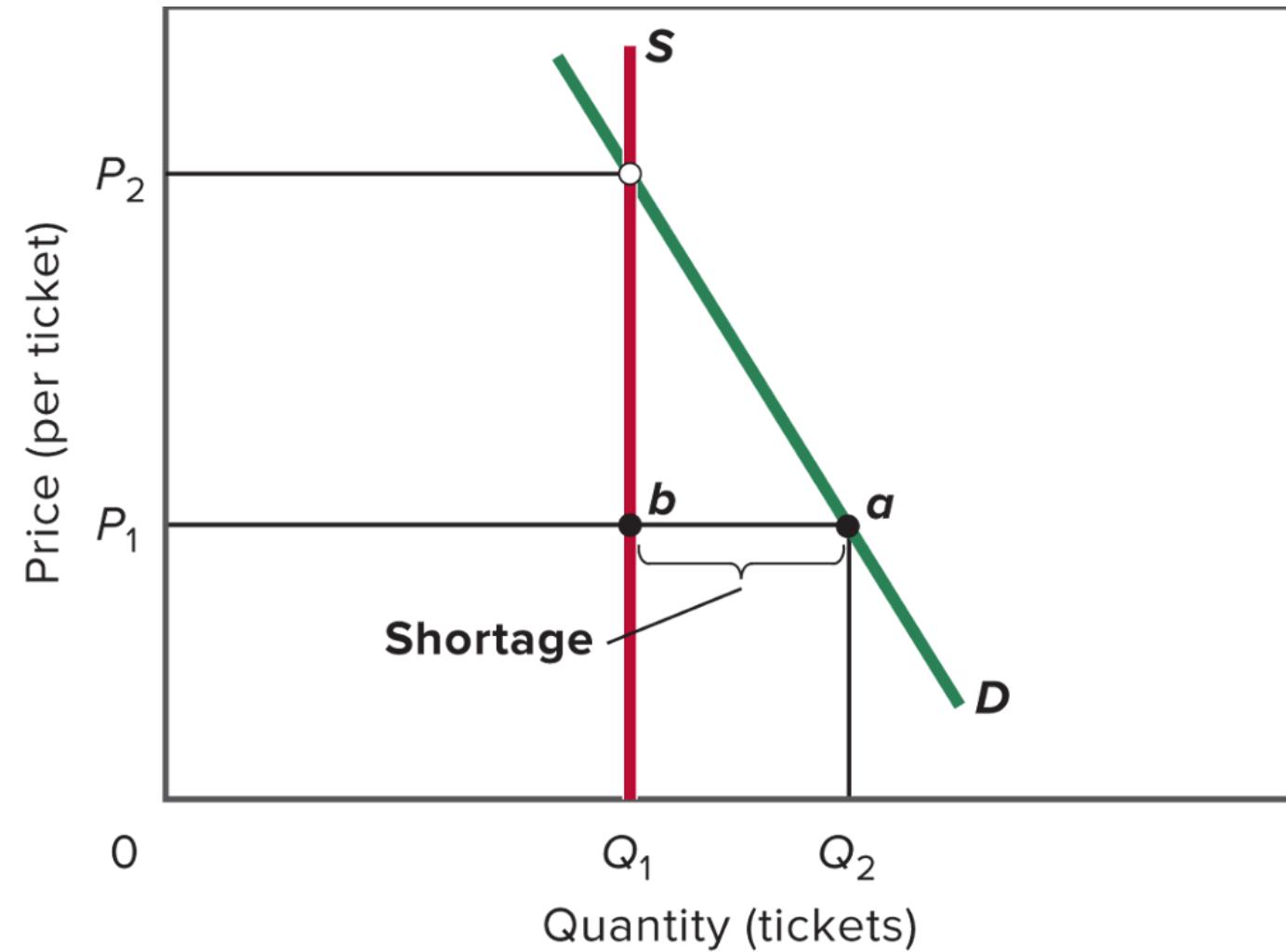
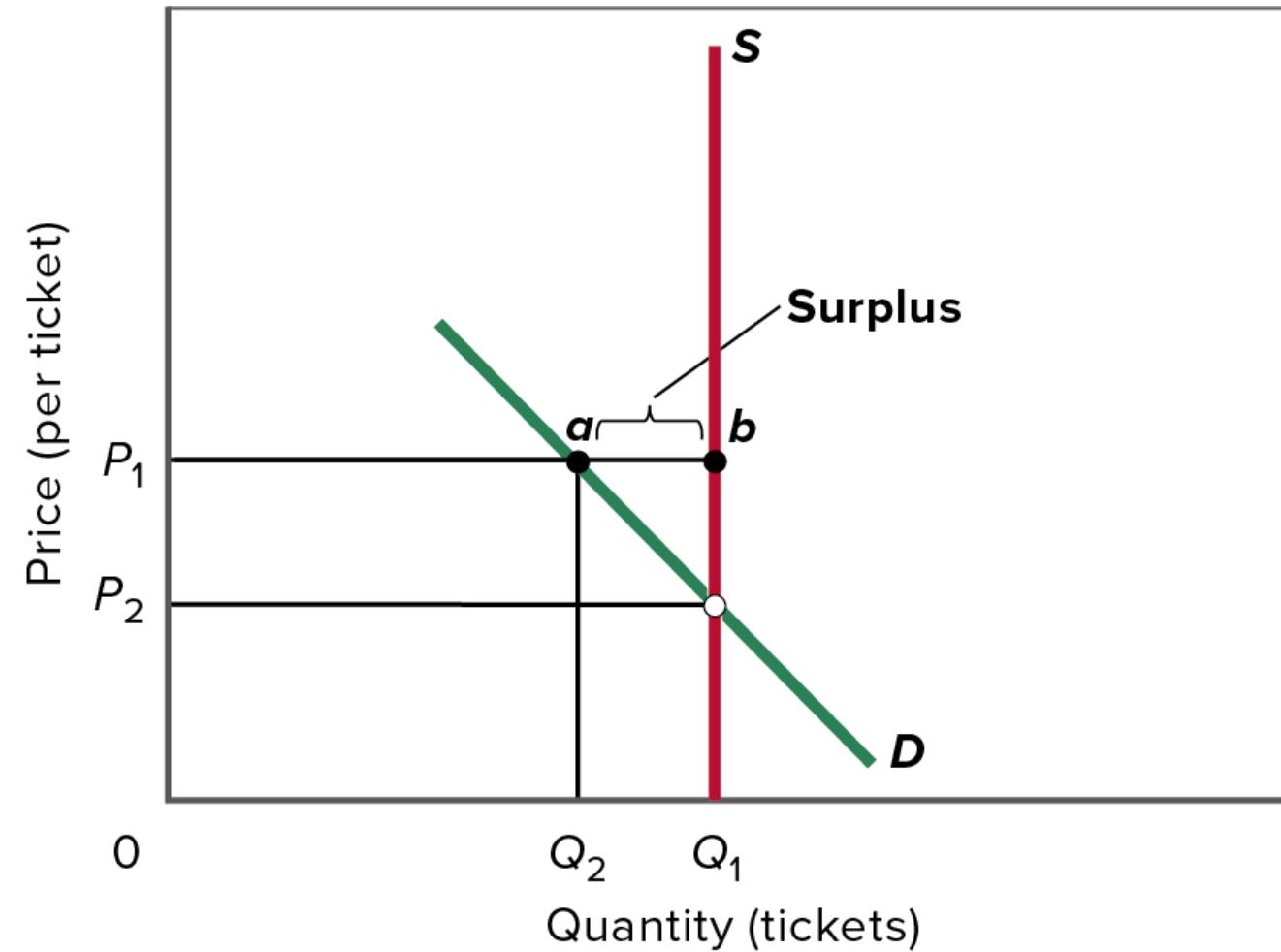


FIGURE A3-6 The Market for Tickets to the Olympic Curling Preliminaries

- Curling events have low demand, leading to a ticket surplus.
- The printed ticket price exceeds the equilibrium price, causing unsold tickets and empty seats.
- No scalping occurs due to the weak demand and surplus.



CHAPTER SUMMARY 1/2

- Supply and Demand Analysis is a key tool for understanding equilibrium prices and quantities.
- The chapter provides enough information for continued study, though more examples can be beneficial.
- The appendix offers concrete examples of changes in supply and demand.
- The simplest scenarios involve changes in either supply or demand while the other remains constant.

CHAPTER SUMMARY 2/2

- A decrease in supply increases the equilibrium price and decreases the equilibrium quantity, while an increase in demand raises both.
- Simultaneous changes in supply and demand impact equilibrium price and quantity based on the relative magnitudes of the changes.
- Products with vertical supply curves, like land, experience price changes without quantity changes when demand shifts.
- Pre-set prices below equilibrium cause shortages and scalping, while prices above equilibrium result in surpluses.