Elements of Microeconomics

Hank Behaeghel

Johns Hopkins University

Week 3

Few Reminders

- Homework 1 is due tonight at **midnight**
- There are trade practice questions posted to canvas. If you still feel a little uncomfortable with this topic I recommend doing them.

Supply and Demand

- Key Concepts:

  1. **market**:

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  2. **competitive market**:

Supply and Demand

- Key Concepts:

  1. **market**: a group of buyers and sellers of a particular good or service.
  2. **competitive market**: a market in which there are many buyers and many sellers so that each has a negligible impact on the market price.

A Few Important Notes about Markets

1. A market pretains to a particular good or service. This has important implications for future discussion of elasticity (Chapter 5).
    - This implies that you can define a market as broadly or narrowly as you would like.
2. There are many different types of markets but, until later in the course assume discussions of markets are discussing **competitive markets**.

Onto Demand

- This is the side of the market we most often find ourselves on as consumers.
- Demand is always downward sloping, so if your mind goes blank trying to draw supply and demand, demand starts with D and so does downward!

Law of Demand

All else being equal (ceritus paribus), the quantity demanded of a good falls when the price of a good rises.

Shifters of Demand

1. Income

Shifters of Demand

1. Income
2. Price of Related Goods

Shifters of Demand

1. Income
2. Price of Related Goods
3. Tastes

Shifters of Demand

1. Income
2. Price of Related Goods
3. Tastes
4. Expectations

Shifters of Demand

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5. Number of Buyers

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- All of these can shift demand in either direction (up or down). TRIBES is the way Professor Husain presents it to make it eaiser to remember, do which ever works for you.

Into Supply

- Think of this side as the stores you go to, you yourself may be a supplier of a good but, in this class think of it as a merchant or something of the sort.
- Unlike demand, supply does not have an easy trick to remember it's direction but, if you remember demand is downward sloping demand you can figure out supply goes the opposite way.

Law of Supply

The claim that, other things being equal (ceritus paribus), the quantity supplied of a good rises when the price of the good rises.

Shifters of Supply

1. Input prices

Shifters of Supply

1. Input prices
2. Technology

Shifters of Supply

1. Input prices
2. Technology
3. Expectations

Shifters of Supply

1. Input prices
2. Technology
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4. Number of sellers

Shifters of Supply

1. Input prices
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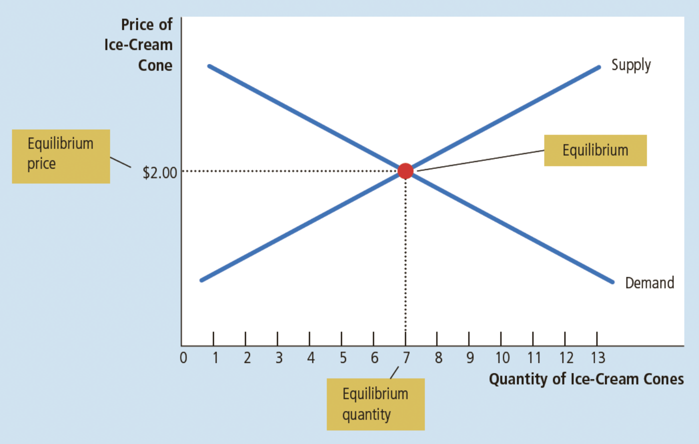
- You can remember with the PESTS acronym.

All Togehter Now!

- When we combine supply and demand there is a point of intersection. This point is known as **equilibrium**.
- At equilibrium Q_s and Q_d are equal to each other; one could even say they are in a balance.



Sometimes Things get Out of Balance

1. **Surplus**: this is when we have excess supply, i.e. $Q_s > Q_d$
2. **Shortage**: this is when there is excess demand, i.e. $Q_d > Q_s$

- There are many reasons why these situations arise: short term shocks to one or the other, price controls, etc.. We will cover these a little later in this course.

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.

Example

Question

Consider a market for a moment . The market we will consider is the market of the **greatest invention of all time**: Reese's Cups

Suppose: $Q_d = 20 - 2P$ and $Q_s = 8P$ where quantity is in millions of cups and P in dollars.

1. Find P_{eq} and Q_{eq}
2. At what price will there be a surplus of 5 million Reese's Cups? At what price will there be a shortage of 10 million Reese's Cups?
3. What happens to the market when the world's cacao bean producers stop selling to Hershey?
4. What happens to the market when Europeans decided that "fine, maybe they aren't so bad"?