Economics - Demand and Supply: Key Notes

This document provides concise and beautifully formatted notes summarizing key concepts in demand, supply, market equilibrium, and associated principles for quick revision and better understanding.

1. Introduction to Economics

Economics is the study of how scarce resources are allocated to satisfy unlimited wants. It examines production, distribution, and consumption of resources in society.

Professor Robbins defines economics as a science 'which studies human behavior as a relationship between ends and scarce means which have alternative uses.'

2. Nature and Scope of Economics

- Economics as a Science: Systematic study of cause-and-effect relationships.

- Economics as an Art: Practical application of economic knowledge.

- Positive Economics: Describes 'what is.'

- Normative Economics: Explains 'what ought to be.'

3. Principles of Business Economics

Important principles aiding rational decision-making include:

- Marginal Principle: Focus on changes in cost and revenue per unit.

- Incremental Principle: Analyzing impact of policy changes on cost and revenue.

- Equi-marginal Principle: Allocating resources to equalize marginal returns.

- Opportunity Cost Principle: Cost of foregone alternatives.

- Time Perspective Principle: Balancing short-term and long-term goals.

- Discounting Principle: Future value adjusted for present value.

4. Demand

Definition: Effective demand is a desire backed by willingness and ability to pay.

Determinants of Demand:

- Price of the commodity
- Income of consumers
- Prices of substitutes and complementary goods
- Consumer tastes and preferences
- Expectations about future prices
- Special influences like climate or demographics

Law of Demand: Ceteris paribus, demand is inversely proportional to price.

5. Supply

Definition: Quantity of a product available for sale at a given price and time.

Determinants of Supply:

- Price of the product
- Prices of other goods
- Future price expectations
- Technology advancements
- Factor prices and government policies

Law of Supply: Higher prices lead to greater quantity supplied, ceteris paribus.

6. Market Equilibrium

Market equilibrium occurs when demand equals supply, determining the equilibrium price and quantity.

This state ensures there is no tendency for price to change further.