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The Market Forces of Supply and Demand



MARKETS AND COMPETITION

- 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.

What Is a Market?

- 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.

What Is a Market?

- Buyers determine *demand*.
- Sellers determine *supply*.

What Is Competition?

- 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.

What Is Competition?

- 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

What Is Competition?

- 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
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\$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.