



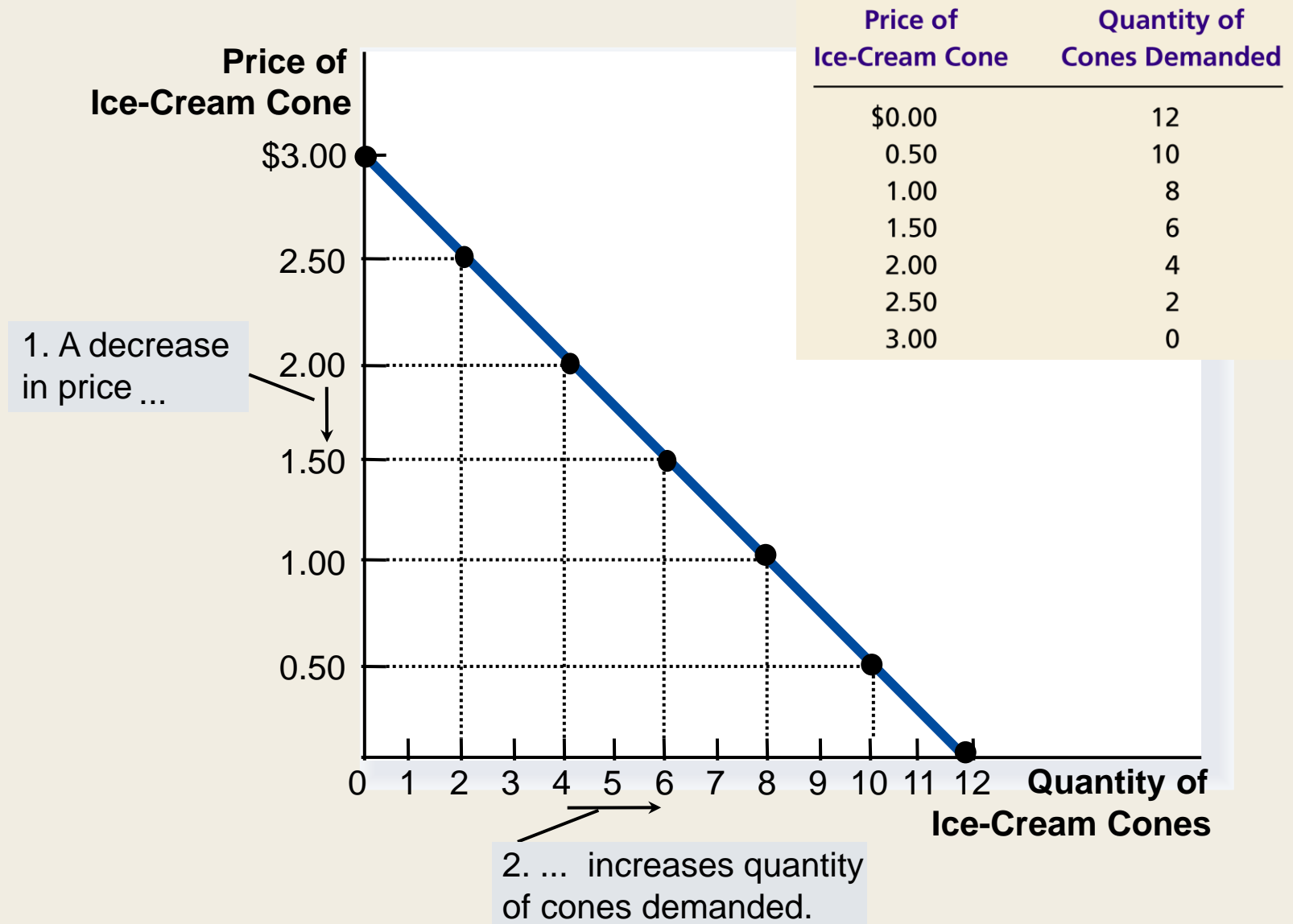
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The Market Forces of Supply and Demand

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.

Figure 1 Catherine's Demand Schedule and Demand Curve



Market Demand versus Individual Demand

- Market demand refers to the sum of all individual demands for a particular good or service.
- Graphically, individual demand curves are summed horizontally to obtain the market demand curve.

The Market Demand Curve

When the price is \$2.00,
Catherine will demand 4
ice-cream cones.

When the price is \$2.00,
Nicholas will demand 3
ice-cream cones.

The market demand at
\$2.00 will be 7 ice-cream
cones.

Catherine's Demand

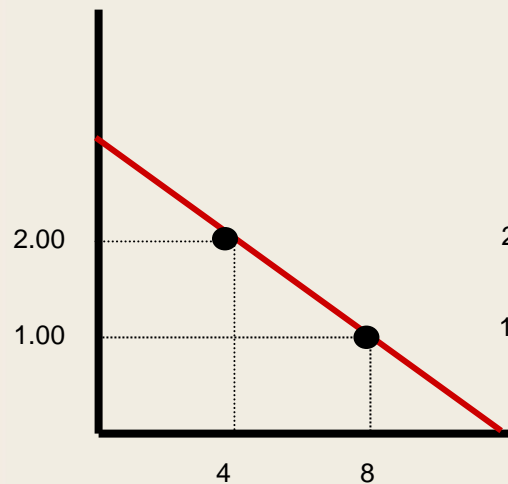
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Nicholas's Demand

=

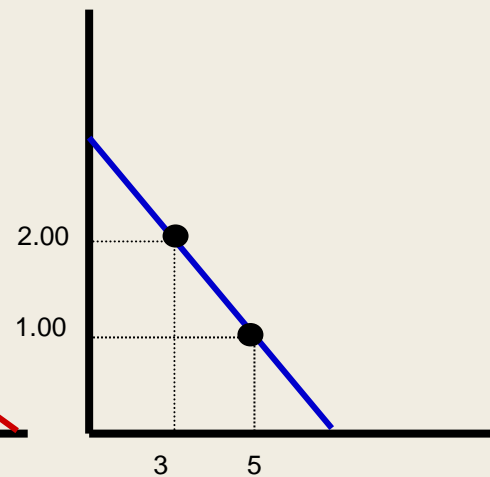
Market Demand

Price of Ice-
Cream Cone



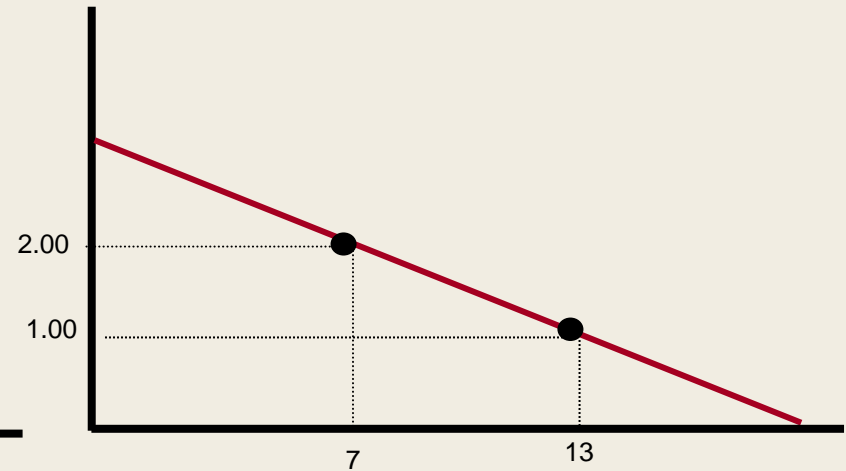
Quantity of Ice-Cream Cones

Price of Ice-
Cream Cone



Quantity of Ice-Cream Cones

Price of Ice-
Cream Cone



Quantity of Ice-Cream Cones

When the price is \$1.00,
Catherine will demand 8
ice-cream cones.

When the price is \$1.00,
Nicholas will demand 5
ice-cream cones.

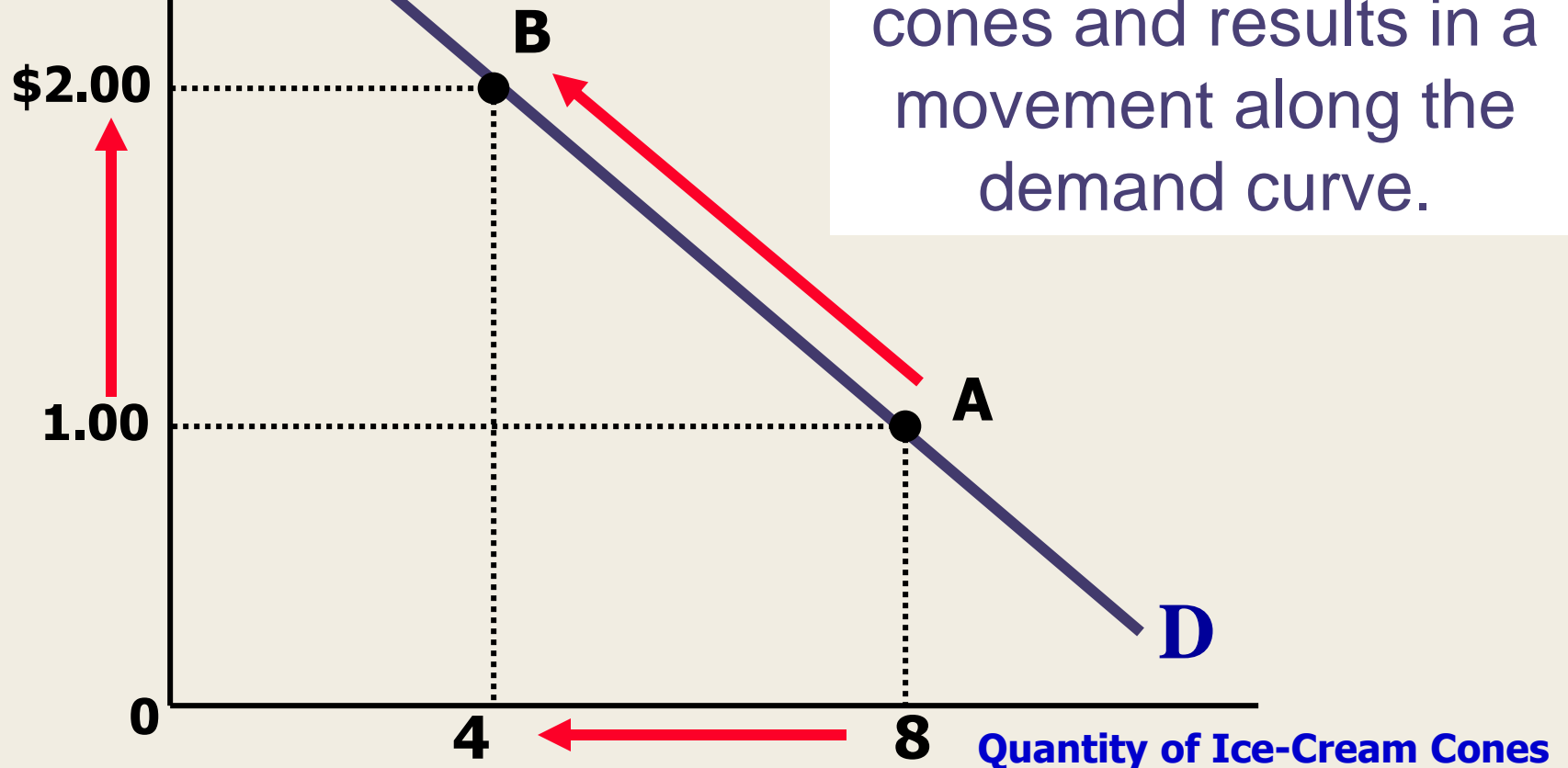
The market demand at
\$1.00, will be 13 ice-
cream cones.

Shifts in the Demand Curve

- Change in Quantity Demanded
 - Movement along the demand curve.
 - Caused by a change in the price of the product.

Changes in Quantity Demanded

Price of Ice-Cream Cones



A tax on sellers of ice-cream cones raises the price of ice-cream cones and results in a movement along the demand curve.

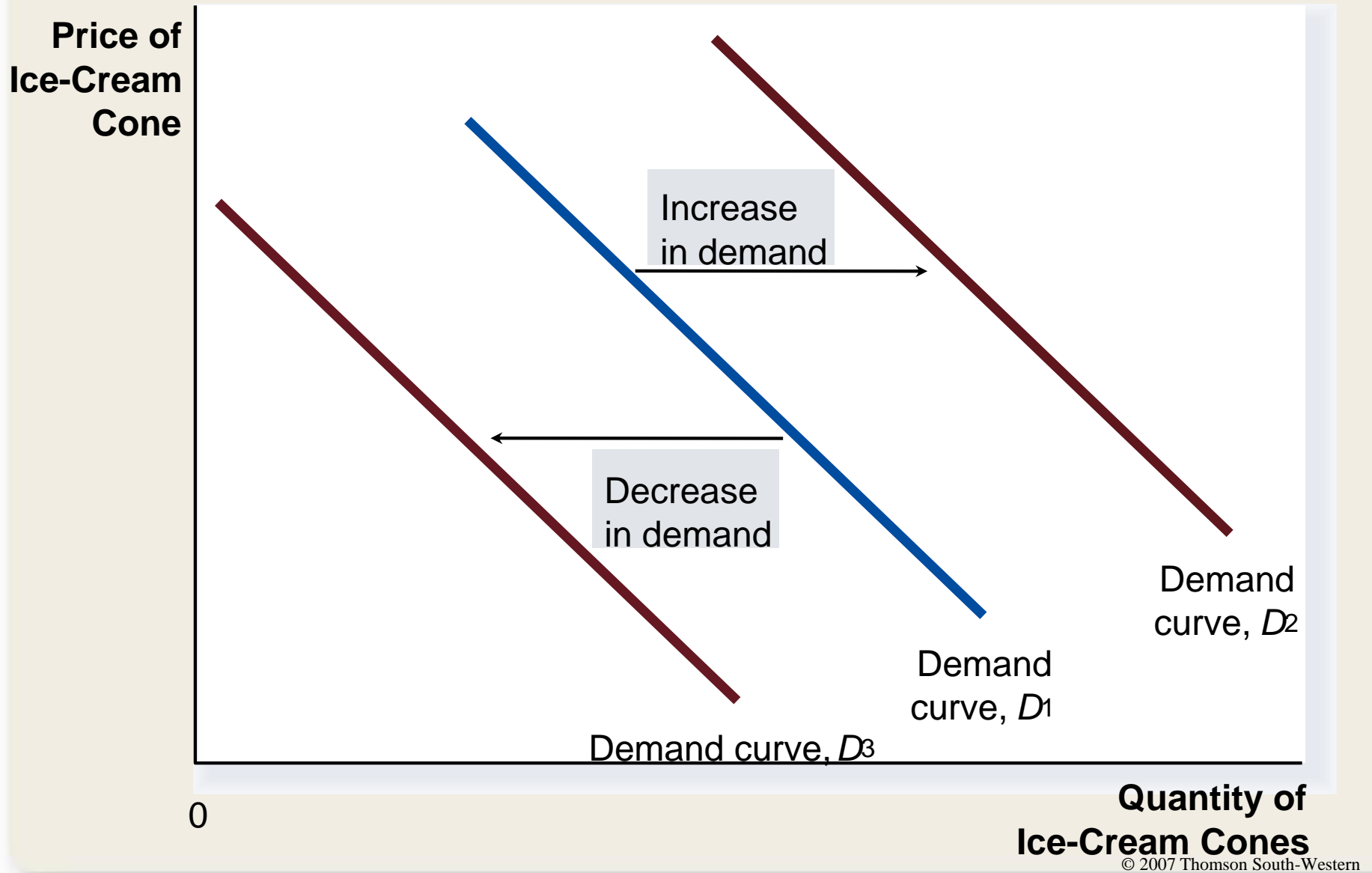
Shifts in the Demand Curve

- Consumer income
- Prices of related goods
- Tastes
- Expectations
- Number of buyers

Shifts in the Demand Curve

- Change in Demand
 - A shift in the demand curve, either to the left or right.
 - Caused by any change that alters the quantity demanded at every price.

Figure 3 Shifts in the Demand Curve



Shifts in the Demand Curve

- Consumer Income
 - As income increases the demand for a *normal good* will increase.
 - As income increases the demand for an *inferior good* will decrease.

Consumer Income Normal Good

Price of Ice-Cream Cone

\$3.00

2.50

2.00

1.50

1.00

0.50

0

1

2

3

4

5

6

7

8

9

10

11

12

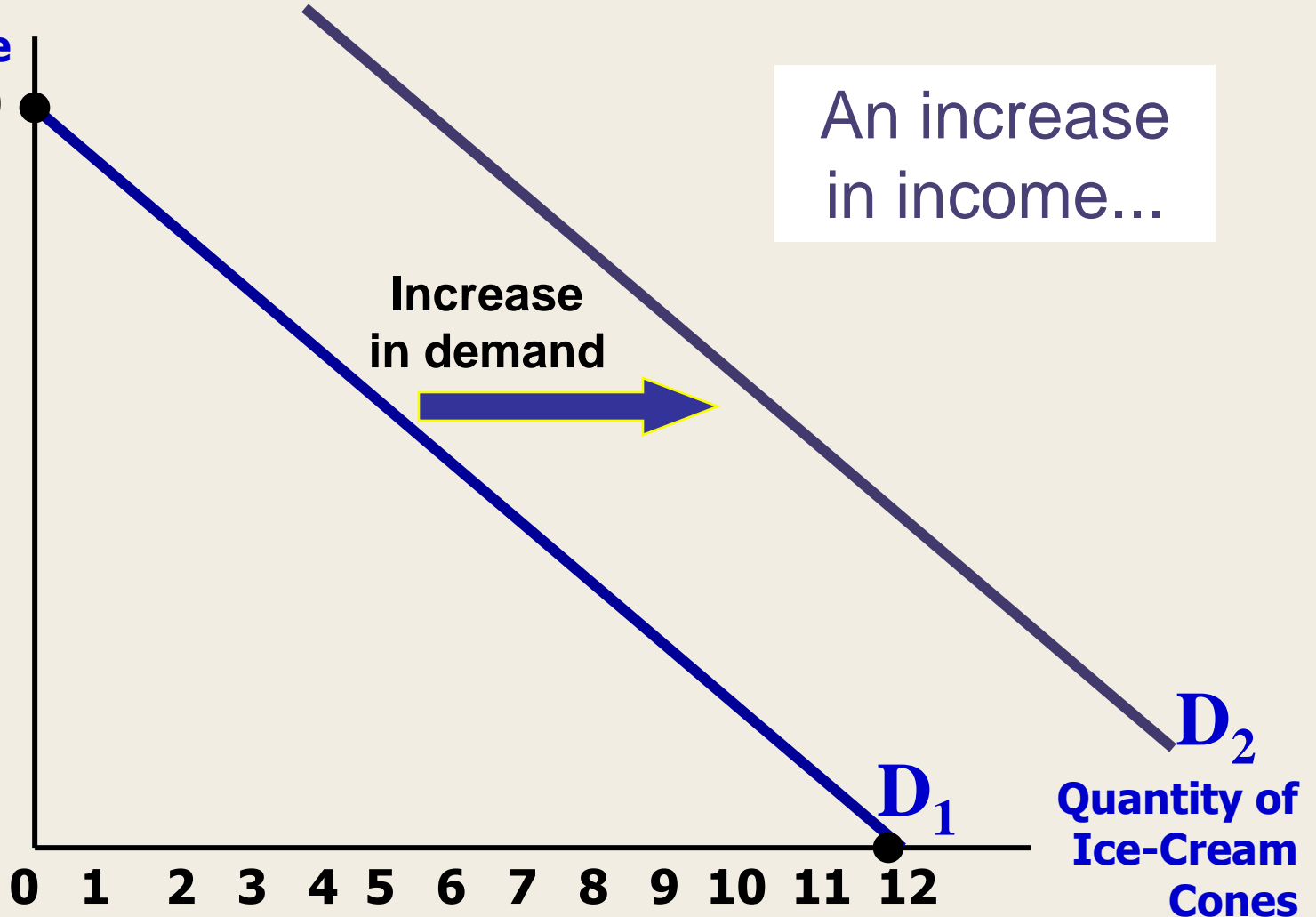
Increase
in demand

An increase
in income...

D_2

D_1

Quantity of
Ice-Cream
Cones



Consumer Income Inferior Good

Price of Ice-Cream Cone

\$3.00

2.50

2.00

1.50

1.00

0.50

0

1

2

3

4

5

6

7

8

9

10

11

12

D_2

D_1

Quantity of Ice-Cream Cones

An increase in income...

Decrease in demand



Shifts in the Demand Curve

- Prices of Related Goods
 - When a fall in the price of one good reduces the demand for another good, the two goods are called *substitutes*.
 - When a fall in the price of one good increases the demand for another good, the two goods are called *complements*.

Table 1 Variables That Influence Buyers

Variable	A Change in This Variable. . .
Price	Represents a movement along the demand curve
Income	Shifts the demand curve
Prices of related goods	Shifts the demand curve
Tastes	Shifts the demand curve
Expectations	Shifts the demand curve
Number of buyers	Shifts the demand curve



SUPPLY

- *Quantity supplied* is the amount of a good that sellers are willing and able to sell.
- Law of Supply
 - The *law of supply* states that, other things equal, the quantity supplied of a good rises when the price of the good rises.

Urge to have more in supply
if price is higher
⇒ Ignoring demand

The Supply Curve: The Relationship between Price and Quantity Supplied

- Supply Schedule
 - The *supply schedule* is a table that shows the relationship between the price of the good and the quantity supplied.

Ben's Supply Schedule

Price of Ice-Cream Cone	Quantity of Cones Supplied
----------------------------	-------------------------------

\$0.00

0 cones

0.50

0

1.00

1

1.50

2

2.00

3

2.50

4

3.00

5



The Supply Curve: The Relationship between Price and Quantity Supplied

- Supply Curve
 - The supply curve is the graph of the relationship between the price of a good and the quantity supplied.

Figure 5 Ben's Supply Schedule and Supply Curve

happy seller providing more

