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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
$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.