



Competitive markets

The nature of markets

- A market originally was a place where people gathered to buy and sell goods. (people meet face to face)
 - ✓ Fruit and vegetable market
 - ✓ Fish market
 - ✓ Clothes store, etc.
- Nowadays, market include any kind of arrangement where buyers and sellers of goods, services or resources are linked together to carry out an exchange. (people may or may not meet)
 - ✓ Online shop
 - ✓ Stock market
 - ✓ International trade, etc.

Market Classification

- **Local market:** buyers and sellers originate from a local area.
- **National market:** buyers and sellers are from anywhere within a country.
- **International market:** buyers and sellers from anywhere in the world.

- **Product market:** Product market: products and services are sold.
- **Resource market:** factors of production are sold.



Competitive markets: Demand and Supply

Demand

- The behaviour of buyers.
- **Definition:** It indicates the various quantities of a good that consumers(or a consumer) are **willing and able** to buy at different possible prices during a particular time period, ceteris paribus.
 - ✓ 'Willing' – the consumer wants to buy the goods
 - ✓ 'Able' – the consumer can afford to buy it
- Buyer of goods/services market: Consumers (households)
- Buyer of factors of production: Firms

Demand schedule

Demand schedule for a consumer

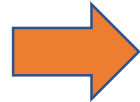
Price of Coffee	Quantity of Coffee demand (per wk)
40	1
30	3
20	5
10	7

- Concentrate only on the relationship between **the quantity of a good the consumer is willing and able to buy** and its **Price**.
- It do not tell us anything about how many cup of coffee the consumer will actually buy and what price the consumer will pay. It only Tells us how many coffee the consumer **would be prepared to buy in different prices**.
- One consumer's demand is affected not only by price. But also, by many other things, like income, tastes and prices of related goods, etc.

Demand Curve

Demand schedule for a consumer

Price of Coffee	Quantity of Coffee demand (per wk)
40	1
30	3
20	5
10	7



Price of Coffee

45
40
35
30
25
20
15
10
5
0

Demand Curve for consumer A

1

3

5

7

—●— Demand Curve for consumer A

Quantity of Coffee (per wk)

The Law of Demand

- As the price of a good falls, the quantity of the good demanded increases.
- As the price of a good go up , the quantity of the good demanded decreases.

→ Causal relationship.

→ Negative relationship.

- **The law of Demand:** The **negative** causal relationship between price and quantity demanded.

Why the demand curve slopes downwards?

The Marginal utility

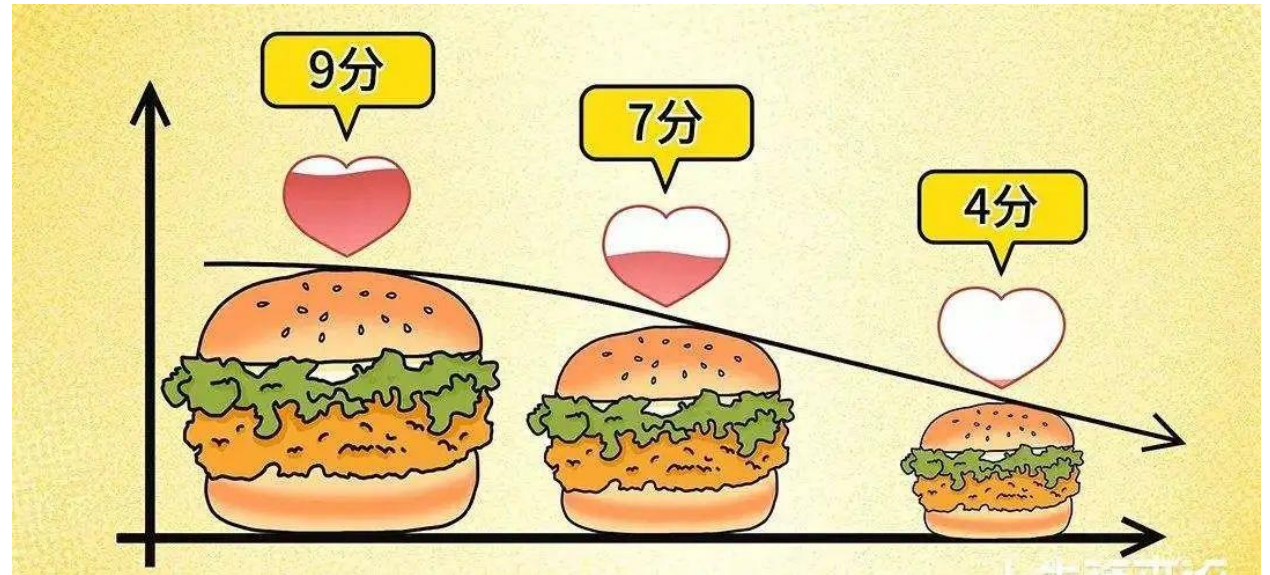


- **Utility:** satisfaction that consumers gain from consuming something.
 - subjective concept
 - Each unit of utility we call it **util**.
- **Total utility:** total satisfaction that consumers get from consuming something.
- **Marginal utility:** extra satisfaction that consumers receive from consuming one more unit of a good.

The law of diminishing marginal utility

The extra benefit provided by each additional unit increases by smaller and smaller amounts.

No. of burger eat per day	Total utility (utils)	Marginal utility (utils)
0	0	0
1	9	9
2	16	7
3	20	4
4	20	0
5	17	-3



Why the demand curve slopes downwards?

- Since each successive unit of the good you consume produces less and less benefit. You will be willing to buy each extra unit only if it has a lower and lower price. (ceteris paribus)

→ The demand curve can be called **Marginal Benefit (MB) Curve**



第二杯
半价
第三杯
免费!



From individual demand to market demand

- Different consumers have different preferences (Likes and dislikes), So different consumers will have different demand curve.

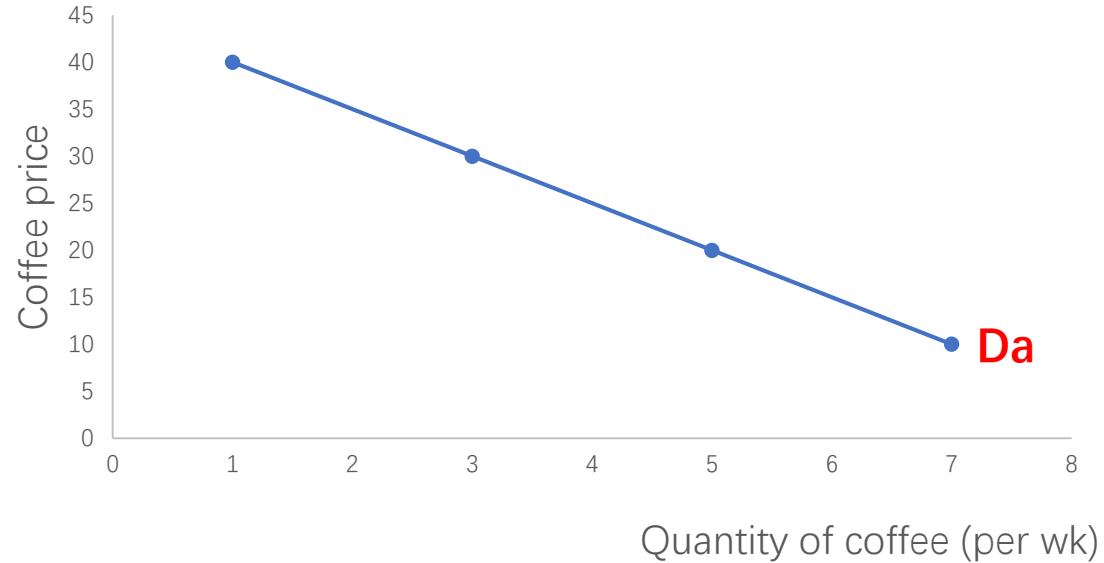
Demand schedule for consumer A	
Price of Coffee	Quantity of Coffee demand (per wk)
40	1
30	3
20	5
10	7

Demand schedule for consumer B	
Price of Coffee	Quantity of Coffee demand (per wk)
40	5
30	6
20	7
10	8

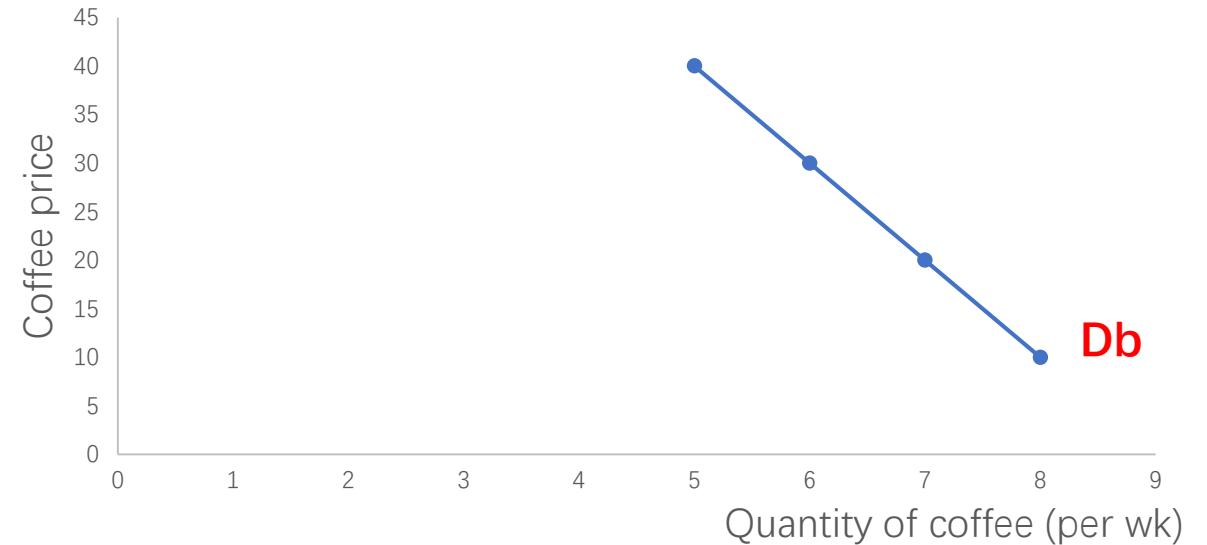
From individual demand to market demand



Demand Curve for consumer a



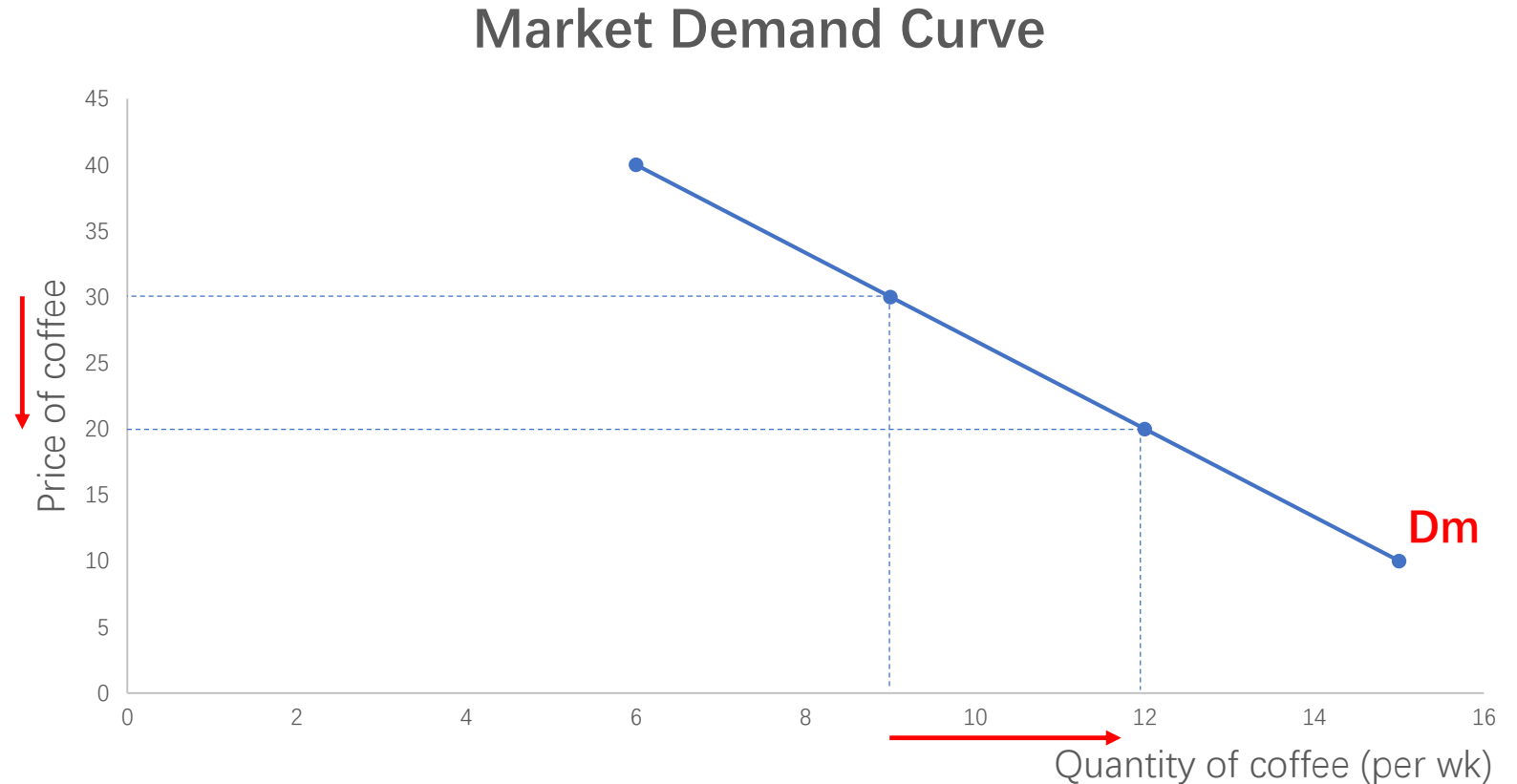
Demand Curve for consumer b



Market Demand (consumer a+b+c+...)

Add up the demand of consumer a and b.

Market Demand	
Price of Coffee	Quantity of Coffee demand (per wk)
40	1+5=6
30	3+6=9
20	5+7=12
10	7+8=15



Market demand is the sum of all individual demands for one good.

→ When **price change**, it leads to **change in quantity demanded**.

Non-price determinants of demand

- When we examined the relationship Between price and quantity demanded, we made ceteris paribus assumption that all other variables will be constant.



The **non-price determinants of demand** are the variables other than price that can influence demand.

- ✓ Changes in the determinants of demand cause **shifts in the demand curve**: the entire demand curve moves to the right or to the left.
- ✓ When **determinants of demand change**, it leads to **change in demand**.

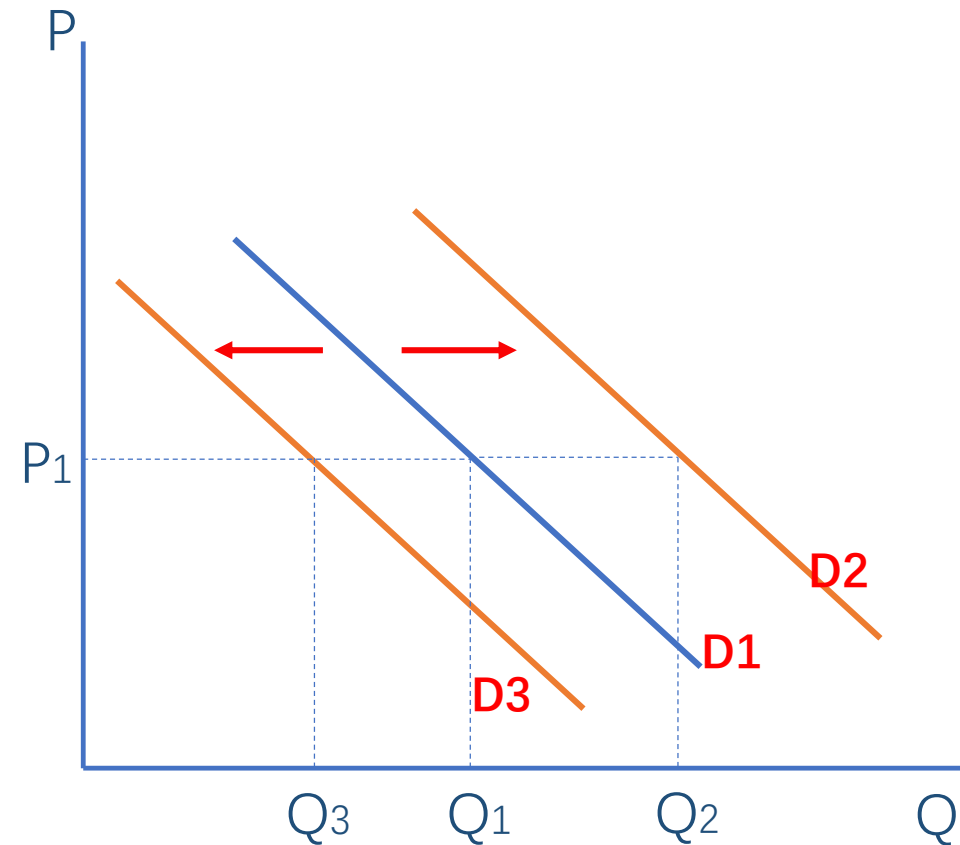
Non-price determinants of demand

- Income

- For normal goods:

Most goods we buy are **normal goods**.

- When income increase, people tend to buy more normal goods. Thus, results in a rightwards shift in the demand curve. (D1 to D2)
- When income decrease, people will buy less and results in a leftwards shift in the demand curve. (D1 to D3)



Non-price determinants of demand

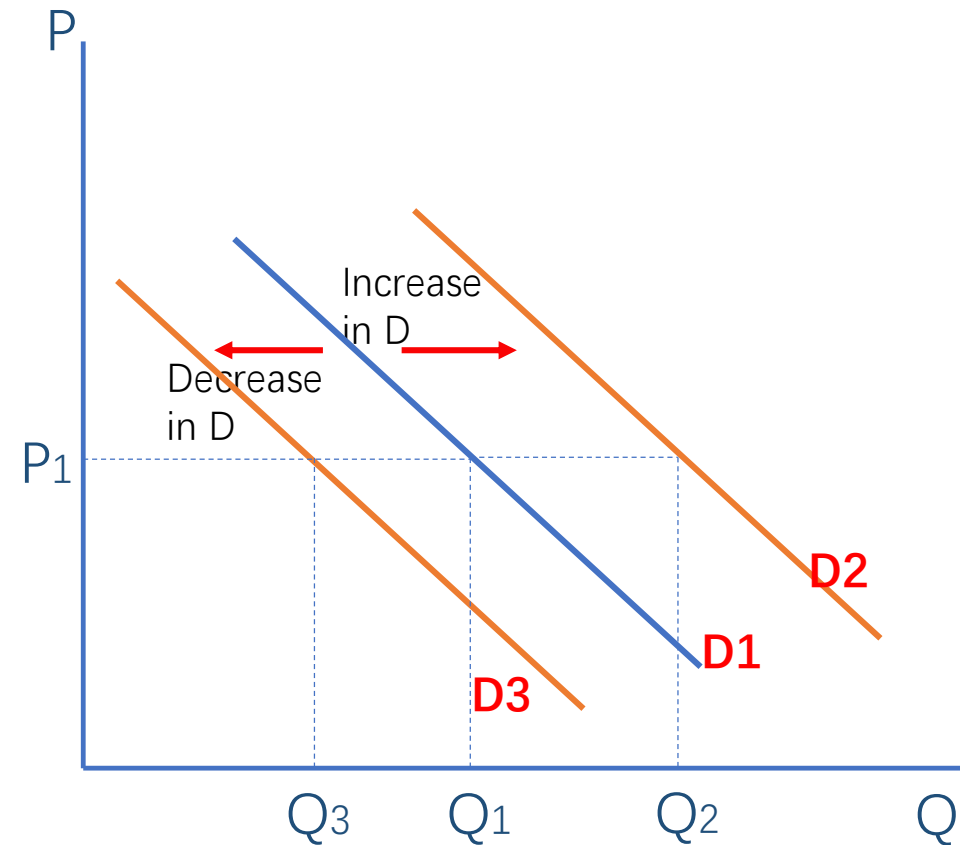
- Income

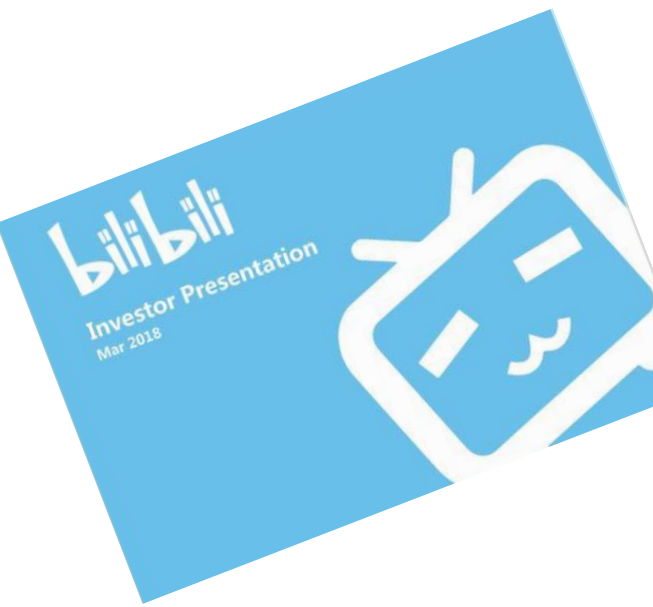
- For inferior goods:

People will buy more Inferior goods when their income decrease (D1 to D2)

buy less inferior goods when their income increase (D1 to D3).

✓ Examples of inferior goods: second-hand car, clothes, bus ticket, etc.





Non-price determinants of demand

- Preferences and tastes

- If preferences and taste change **in favour of a product**, demand for this product will go up and demand curve will **shift rightwards**.
- If preferences and taste change **against the product**, demand will decrease and demand curve **shift leftwards**.

Minivans are making a huge comeback. Here's why



By Peter Valdes-Dapena, CNN Business
Updated 1702 GMT (0102 HKT) August 2, 2021



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Non-price determinants of demand

- Expectation

- Consumers' expectations about the future may affect their demand for a good or service today.
- E.g. During Covid-19 period, the demand for disposable mask and alcohol pad increased. People expect themselves will be stay at home for quarantine, so they stored up food for future usage.



Non-price determinants of demand

- Prices of substitute goods

Two goods are substitute goods if they satisfy a similar need.

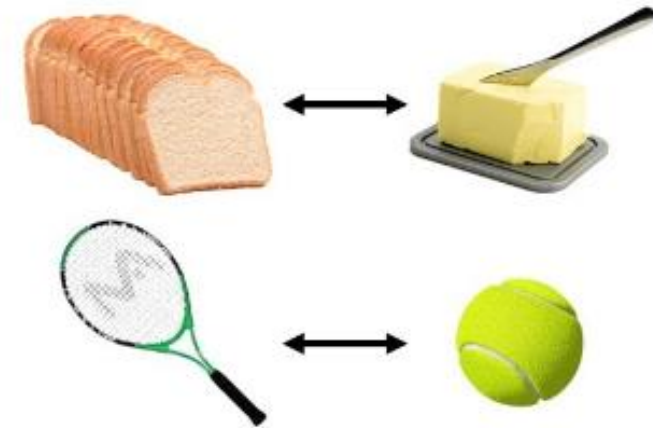
- When product A(Coca cola) raise its price, consumer will switch to buy product B(Pepsi), which shift the demand curve B rightwards.
- When product A(tea) launch discount, consumer will buy more of product A(tea) instead of B(coffee), the demand curve B shift leftwards.



Non-price determinants of demand

- Price of Complementary goods

- Two goods are complementary goods if they tend to be **used together**.
 - ✓ Examples: printer and ink box, swimming suits and swimming glasses, etc.
- A fall in the price of A(printer) lead to an increase in the demand for B(ink box), the demand curve of B(ink box) will be shift rightwards.
- An increase in the price of A(bread) lead to a fall in the demand for B(butter/jam), the demand curve will be shift leftwards.



Non-price determinants of demand

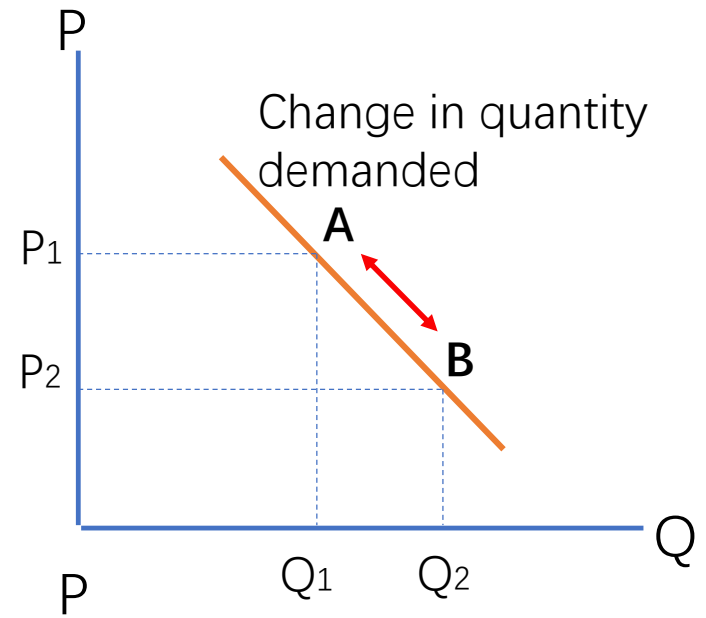
- Population

- Population change means the number of buyer change.
- When number of buyers increase, demand increases and result in demand curve shift rightwards.
- When number of buyers decrease, demand decreases and result in demand curve shift leftwards.

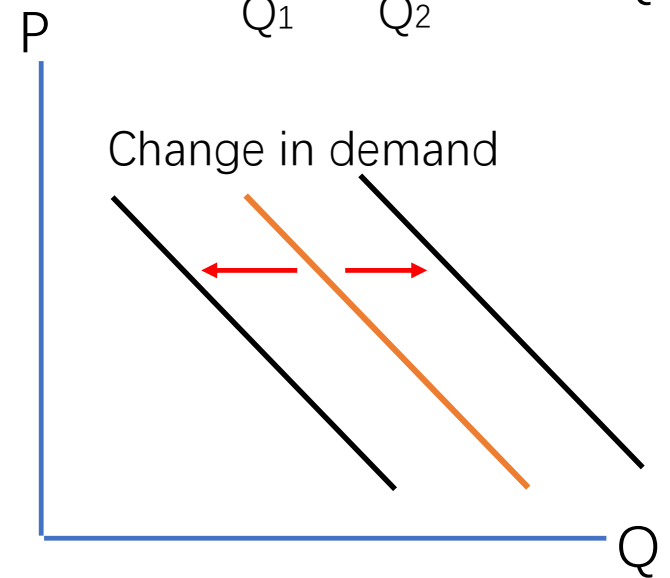


To sum up

- Any change in price produces a **change in quantity demanded**, shown as a movement on the demand curve.



- Any change in a non-price determinant of demand leads to a **change in demand**, shown as a shift of the entire demand curve.



Activity

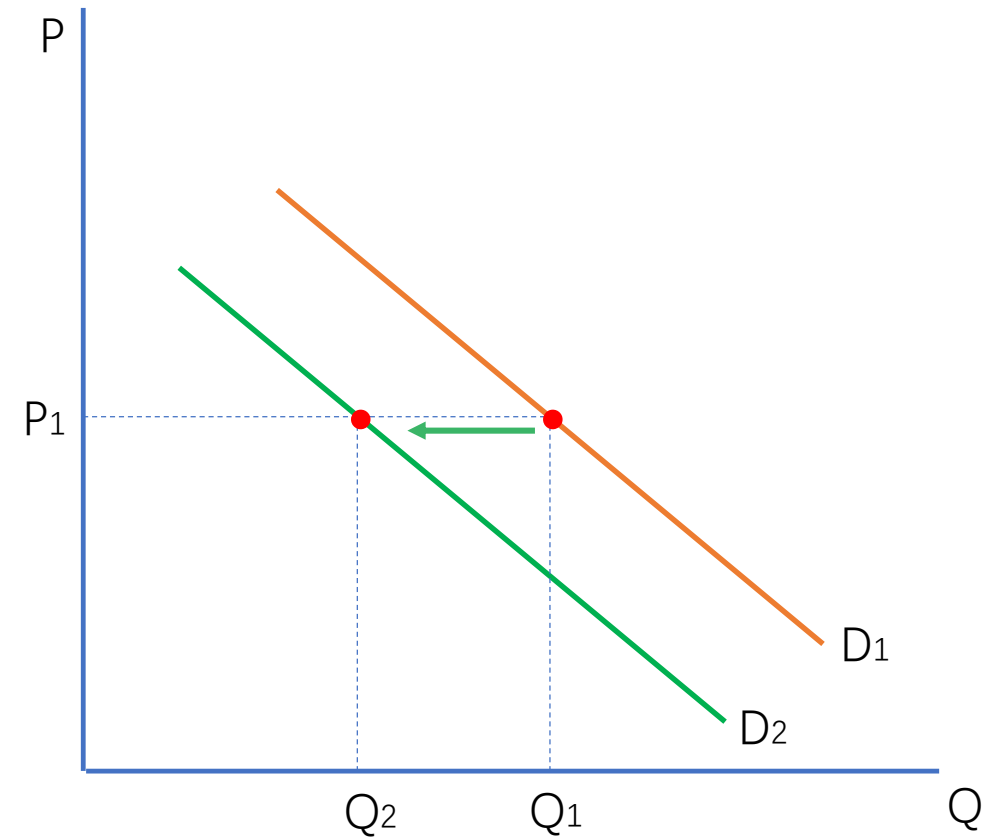
Draw a demand curve of Bluetooth headset. What impact will the following scenarios make to the demand curve? And why?

- 1) The price deduction of wired headset.
- 2) The price deduction of cell phone
- 3) The price deduction of Bluetooth headset
- 4) The popularity of 'running with music'

Activity answer

1) The price deduction of wired headset.

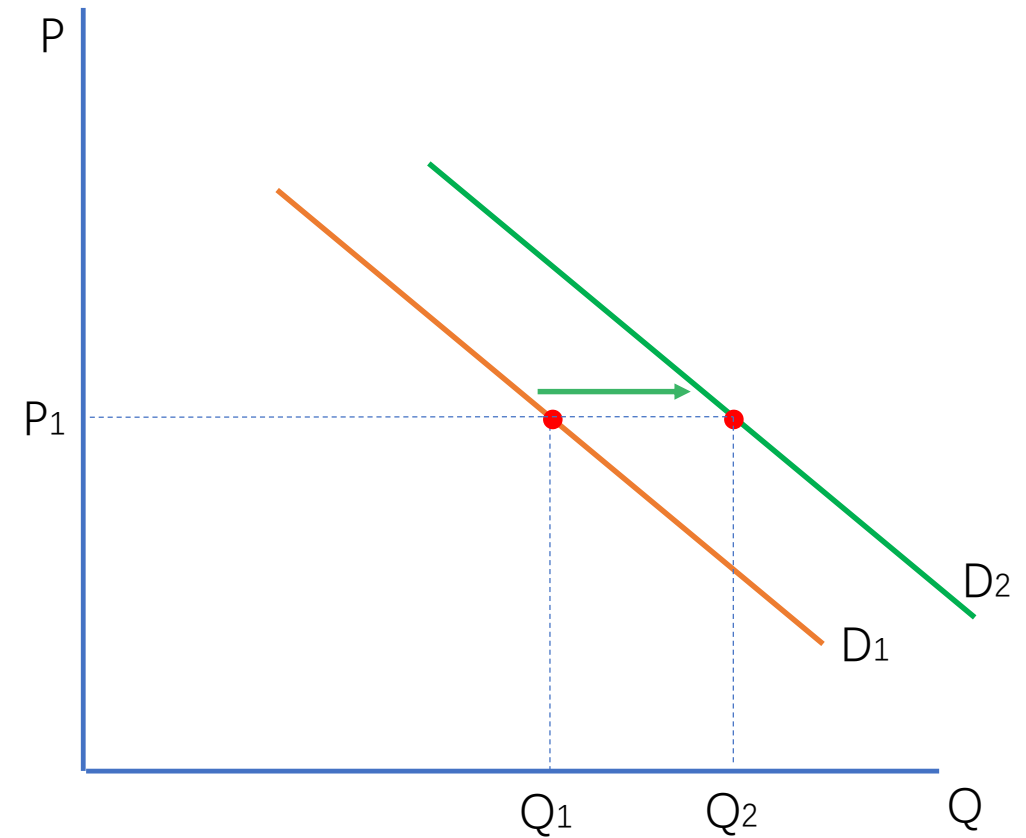
- Wired headset is a **substitutes** of Bluetooth headset.
- When the wired headset price falls, consumers will tend to buy more wired headset, while the demand for Bluetooth headset will go down, shift its demand curve leftwards.



Activity answer

2) The price deduction of cell phone

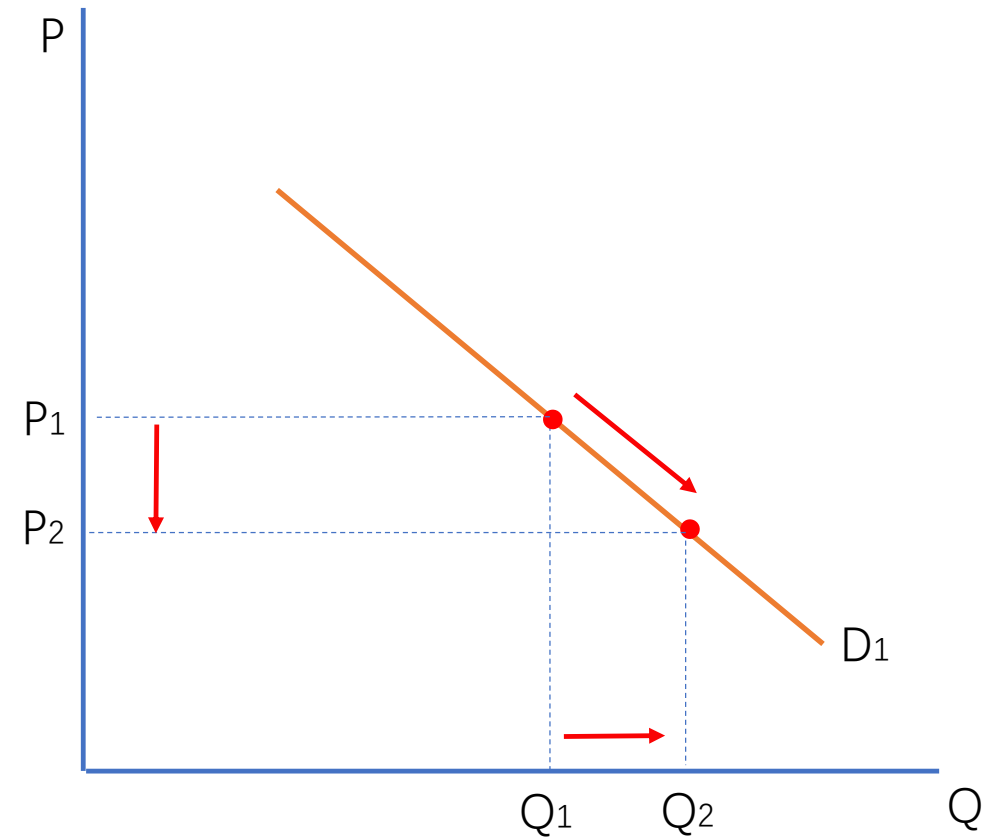
- Cell phone is a **complementary goods** of Bluetooth headset.
- When the cell phone price falls, consumers will buy more cell phones, so the demand for Bluetooth headset will go up, shift its demand curve rightwards.



Activity answer

3) The price deduction of Bluetooth headset

- When the Bluetooth headset price goes down, consumer will buy more, the demand will go up.
- Price goes down from P_1 to P_2
- Quantity demand from Q_1 to Q_2
- Demand curve does not move.



Activity answer

4) The popularity of 'running with music'

- As people follow the trend of 'running with music', the demand for Bluetooth headset will go up, the demand curve shifts rightwards.

