**1. MARKETS AND COMPETITION**

**Market**: A market is a group of buyers and sellers of a particular good or service. The buyers as a group determine the demand for the product, and the sellers as a group determine the supply of the product.

**Competitive Market**: It is a market in which there are many buyers and many sellers so that each has a negligible impact on the market price.

**Perfectly Competitive Market**: A perfectly competitive market must have two characteristics:

1. The goods offered for sale are all the same exactly, and
2. The buyers and sellers are so numerous that no single buyer or seller has any influence over the market price.

**Price Takers**: Because buyers and sellers in perfectly competitive markets must accept the price the market determines; they are said to be price takers.

**Monopoly**: Some markets have only one seller, and this seller sets the price. Such a seller is called a monopoly.

--------------------------------------------------------------------------------------------------------------------------------------

**2. DEMAND**

**a. The Demand Curve: The Relationship between Price and Quantity Demanded**

**Quantity Demanded**: It is the amount of a good that buyers are willing and able to purchase.

**Law of Demand**: The claim that, other things being equal, the quantity demanded of a good, falls when the price of the good rises, is known as law of demand.

**Demand Schedule**: It is a table that shows the relationship between the price of a good and the quantity demanded.

**Demand Curve**: It is a graph of the relationship between the price of a good and the quantity demanded. The demand curve slopes downward because, other things being equal, a lower price means a greater quantity demanded.

**b. Market Demand vs Individual Demand**

**Market Demand**: It is the sum of all the individual demands for a particular good or service. It is important to analyse how markets work.

**Market Demand Curve**: The market demand curve shows how the total quantity demanded of a good varies as the price of the good varies, while all other factors that affect how much consumers want to buy are held constant. The individual demand curves are summed horizontally to obtain the market demand curve.

**c. Shifts in the Demand Curve**

**Increase in Demand**: Any change that increases the quantity demanded at every price, thereby shifting the demand curve to the right is known as increase in demand.

**Decrease in Demand**: Any change that reduces the quantity demanded at every price, thereby shifting the demand curve to the left is known as decrease in demand.

There are many variables that can shift the demand curve. They are listed below:

**Normal Good**: A good for which, other things being equal, an increase in income leads to an increase in demand is known as a normal good.

**Inferior Good**: A good for which, other things being equal, an increase in income leads to a decrease in demand is known as an inferior good.

**Substitutes**: Two goods for which an increase in the price of one leads to an increase in the demand for the other are known as substitutes. Substitutes are often pairs of goods that are used in place of each other.

**Complements**: Two goods for which an increase in the price of one leads to a decrease in the demand for the other are known as complements. Complements are often pairs of goods that are used together.

**Tastes**: The most obvious determinant of demand is a person’s tastes. Economists normally do not try to explain people’s tastes because tastes are based on historical and psychological forces that are beyond the realm of economics. Economists do, however, examine what happens when tastes change.

**Expectations**: Expectations about the future may affect current demand for a good or service today.

**Number of Buyers**: In addition to the preceding factors, which influence the behaviour of individual buyers, market demand also depends on the number of these buyers.

Note: A curve shifts when there is a change in a relevant variable that is not measured on either axis. Because the price is on the vertical axis, a change in price represents a movement along the demand curve. By contrast, income, the prices of related goods, tastes, expectations, and the number of buyers are not measured on either axis, so a change in one of these variables shifts the demand curve.

**Two ways to reduce the quantity of smoking demand**:

1. Shifting the demand curve for cigarettes and other tobacco products to the left - Public service announcements, mandatory health warnings on cigarette packages, and the prohibition of cigarette advertising on television are all policies aimed at reducing the quantity of cigarettes demanded at any given price.
2. Raising the price of cigarettes - A higher price encourages smokers to reduce the numbers of cigarettes they smoke. In this case, the reduced amount of smoking does not represent a shift in the demand curve. Instead, it represents a movement along the same demand curve to a point with a higher price and lower quantity.

**Cigarettes and Illicit Drugs like Marijuana**

1. Marijuana as a substitute - Opponents of cigarette taxes often argue that tobacco and marijuana are substitutes so that high cigarette prices encourage marijuana use.
2. Gateway Drug - By contrast, many experts on substance abuse view tobacco as a “gateway drug” leading young people to experiment with other harmful substances.
3. Conclusion - Most studies of the data are consistent with the latter view. They find that lower cigarette prices are associated with greater use of marijuana. In other words, tobacco and marijuana appear to be complements rather than substitutes.

--------------------------------------------------------------------------------------------------------------------------------------

**3. SUPPLY**

**a. The Supply Curve: The Relationship between Price and Quantity Supplied**

**Quantity Supplied**: It is the amount of a good that sellers are willing and able to sell.

**Law of Supply**: The claim that, other things being equal, the quantity supplied of a good rises when the price of the good rises, is known as law of supply.

**Supply Schedule**: A table that shows the relationship between the price of a good and the quantity supplied is known as supply schedule.

**Supply Curve**: It is a graph of the relationship between the price of a good and the quantity supplied. The supply curve slopes upward because, other things being equal, a higher price means a greater quantity supplied.

**b. Market Supply vs Individual Supply**

**Market Supply**: It is the sum of the supplies of all sellers.

**Market Supply Curve**: The market supply curve shows how the total quantity supplied varies as the price of the good varies, holding constant all other factors that influence producers’ decisions about how much to sell. The individual supply curves are summed horizontally to obtain the market supply curve.

**c. Shifts in the Supply Curve**

**Increase in Supply**: Any change that raises quantity supplied at every price, thereby shifting the supply curve to the right, is called an increase in supply.

**Decrease in Supply**: Any change that reduces the quantity supplied at every price, thereby shifting the supply curve to the left, is called a decrease in supply.

There are many variables that can shift the supply curve. They are listed below:

**Input Prices**: The supply of a good is negatively related to the price of the inputs used to make the good.

**Technology**: Advance in technology raises the supply of products.

**Expectations**: Expectations about the future may affect current supply for a good or service today.

**Number of sellers**: In addition to the preceding factors, which influence the behaviour of individual sellers, market supply depends on the number of these sellers.

Note: A curve shifts only when there is a change in a relevant variable that is not named on either axis. The price is on the vertical axis, so a change in price represents a movement along the supply curve. By contrast, because input prices, technology, expectations, and the number of sellers is not measured on either axis, a change in one of these variables shifts the supply curve.

--------------------------------------------------------------------------------------------------------------------------------------

**4. SUPPLY AND DEMAND TOGETHER**

**a. Equilibrium**

**Equilibrium**: A situation in which the market price has reached the level at which quantity supplied equals quantity demanded is referred to as equilibrium.

**Equilibrium Price**: It is the price that balances quantity supplied, and quantity demanded. The equilibrium price is sometimes called the market-clearing price because, at this price, everyone in the market has been satisfied: Buyers have bought all they want to buy, and sellers have sold all they want to sell.

**Equilibrium Quantity**: It is the quantity supplied and the quantity demanded at the equilibrium price.

**Surplus**: It is a situation in which quantity supplied is greater than quantity demanded. Suppliers are unable to sell all they want at the going price. They respond to the surplus by cutting their prices. Falling prices, in turn, increase the quantity demanded and decrease the quantity supplied. Prices continue to fall until the market reaches the equilibrium.

**Shortage**: It is a situation in which quantity demanded is greater than quantity supplied. Demanders are unable to buy all they want at the going price. A shortage is sometimes called a situation of excess demand. The price increases, causing the quantity demanded to fall and the quantity supplied to rise. These move the market toward the equilibrium.

**Law of Supply and Demand**: The claim that the price of any good adjusts to bring the quantity supplied and the quantity demanded for that good into balance is known as the law of supply and demand.

**b. Three steps to analysing changes in equilibrium**

1. Decide whether the event shifts the supply or demand curve (or perhaps both).
2. Decide in which direction the curve shifts.
3. Use the supply-and-demand diagram to see how the shift changes the equilibrium price and quantity.

hello