

# Chapter 4

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The Market Forces of Supply and Demand

# Introduction

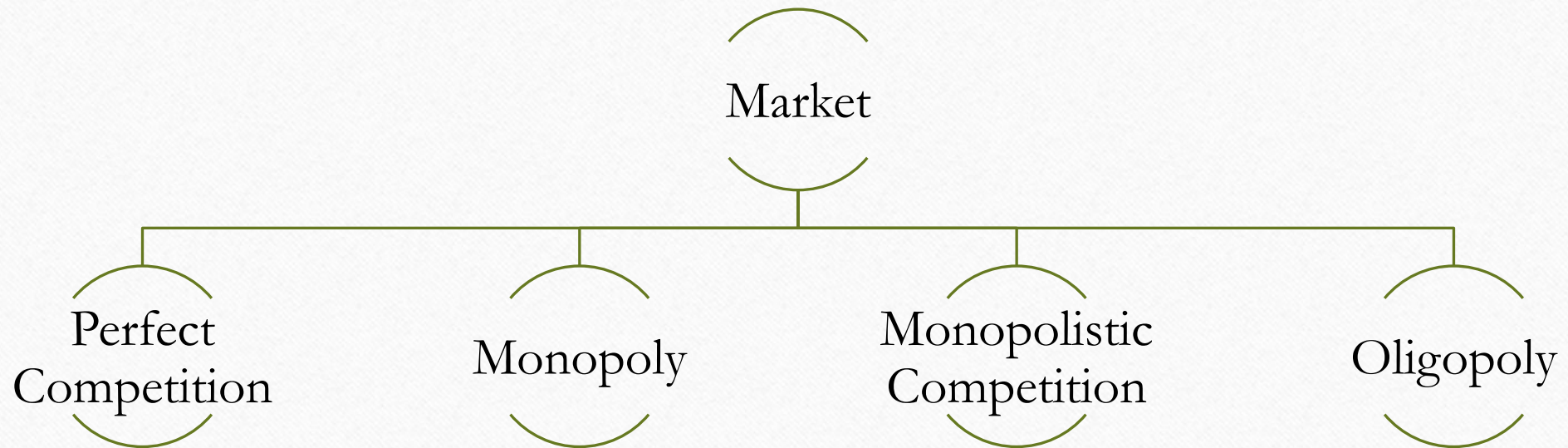
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- Hotel rates have come down during Covid 19 in Chennai
- Price of sanitizer and mask have increased due to Covid 19
- Due to war in middle-east, oil price rises in the U.S
- Everything depends on **demand, supply, and market**



# Different forms of market

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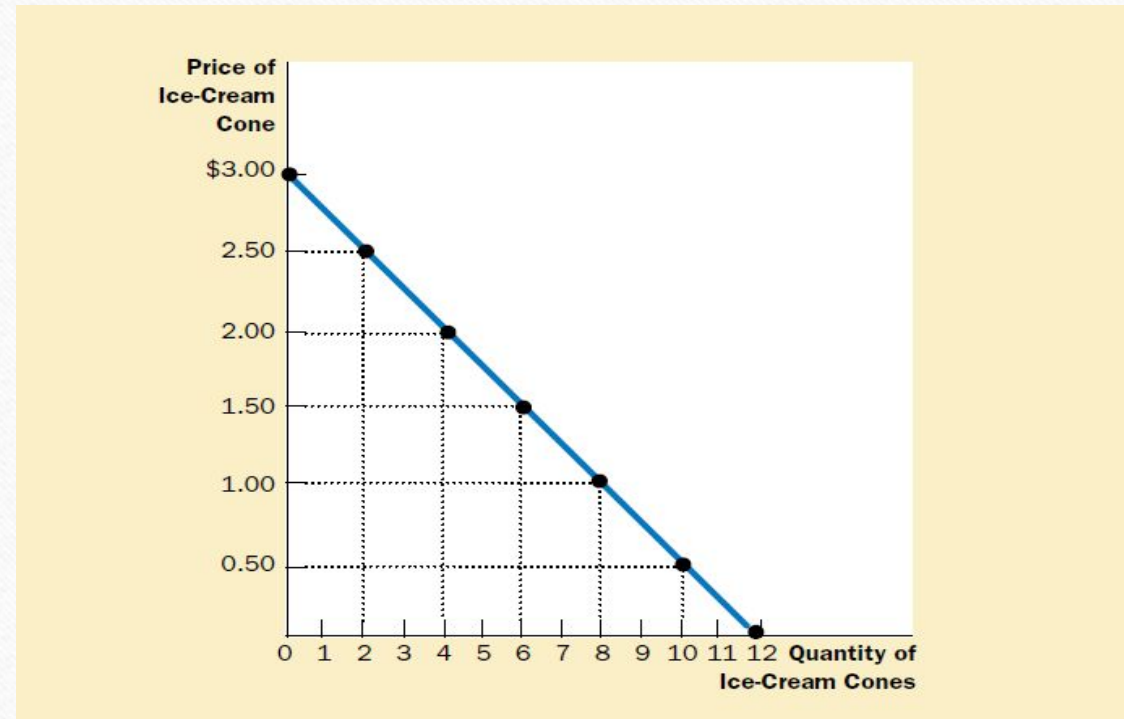
# Demand

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- Want that is backed by the purchasing capacity
- Determinants
  - Price (Law of demand)
  - Income (Engle's curve-normal vs. inferior goods)
  - Prices of related goods (substitutes and complements)
  - Taste and preferences
  - Expectations

# Individual demand curve

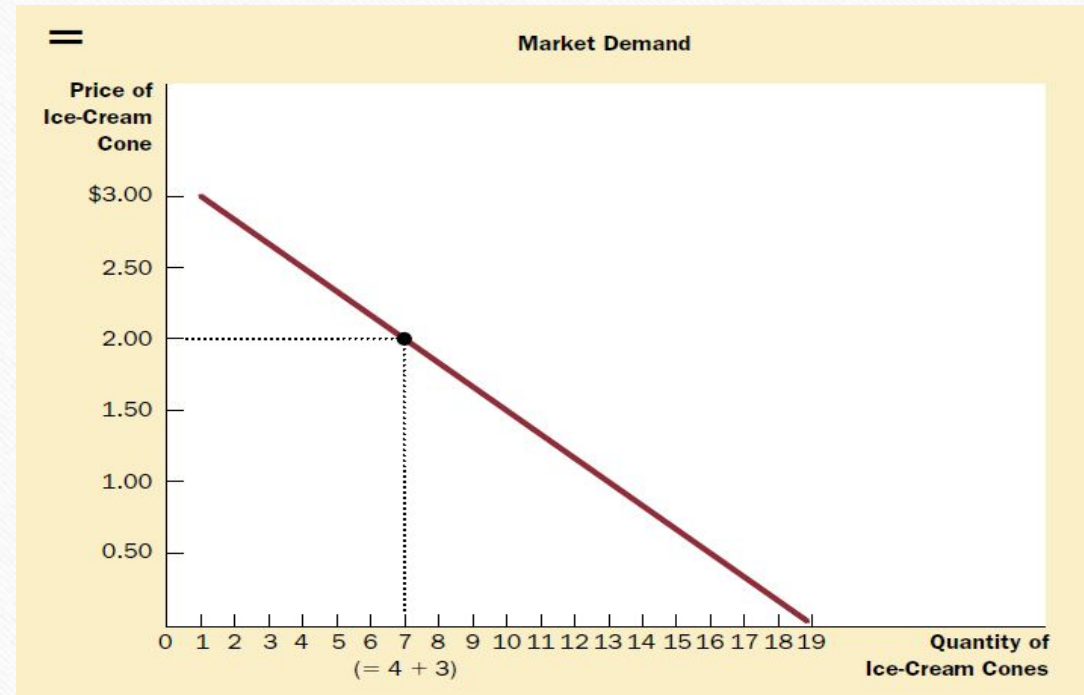
| Price of ice-cream (\$) | Demand |
|-------------------------|--------|
| 0.50                    | 12     |
| 1.00                    | 10     |
| 1.50                    | 8      |
| 2.00                    | 6      |
| 2.50                    | 4      |
| 3.00                    | 2      |
| 3.50                    | 0      |





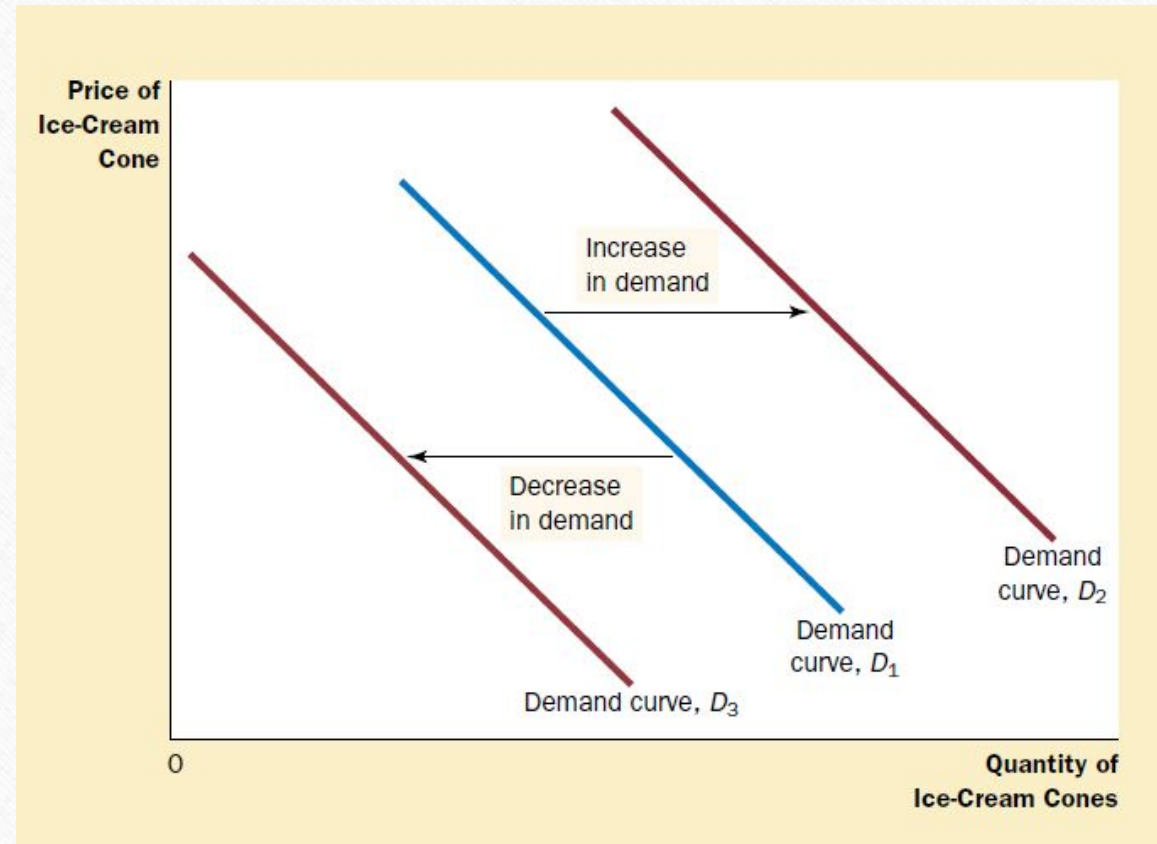
# Market demand

| Price (\$) | D1 | D2 | Market DD |
|------------|----|----|-----------|
| 0.50       | 12 | 7  | 19        |
| 1.00       | 10 | 6  | 16        |
| 1.50       | 8  | 5  | 13        |
| 2.00       | 6  | 4  | 10        |
| 2.50       | 4  | 3  | 7         |
| 3.00       | 2  | 2  | 4         |
| 3.50       | 0  | 1  | 1         |



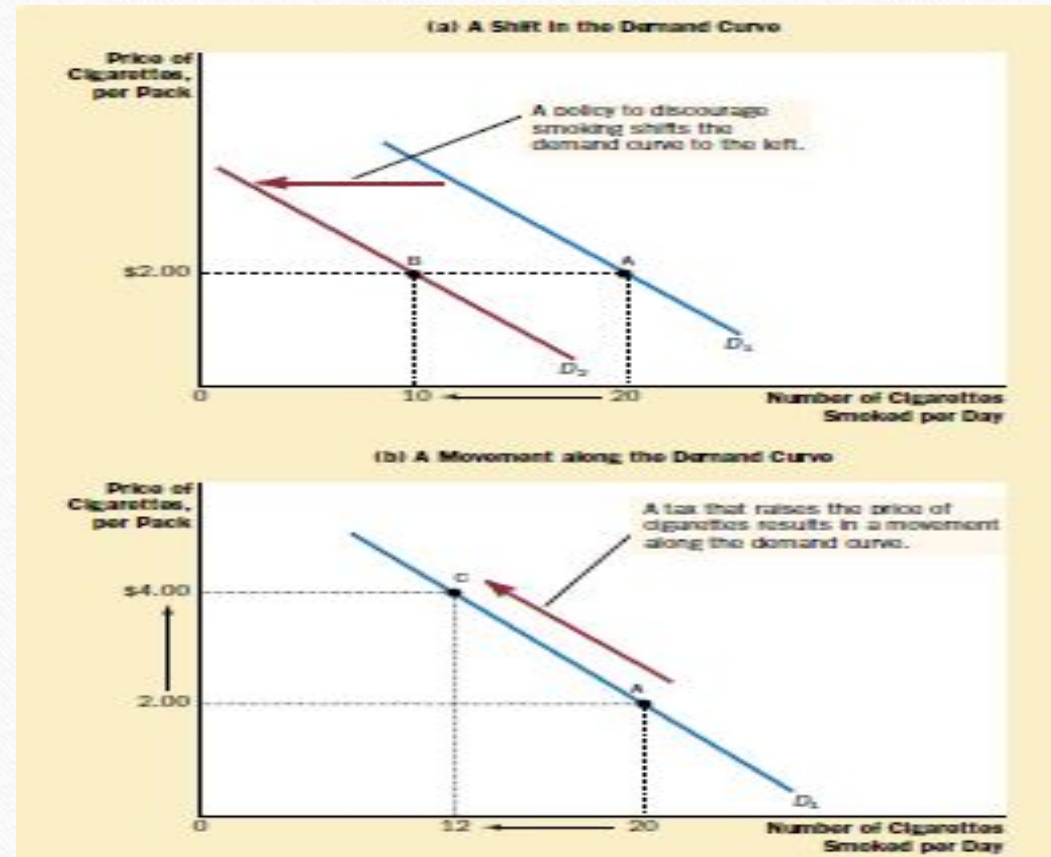
## Shift in demand curve

- Price change-movement along the demand curve
- For changes in other determinants there is a shift in demand curve



## Case study

- Tax on cigarettes leads to a shift along the demand curve
- Tax on cigarettes have increased the consumption of drug (Marijuana)-empirically validated





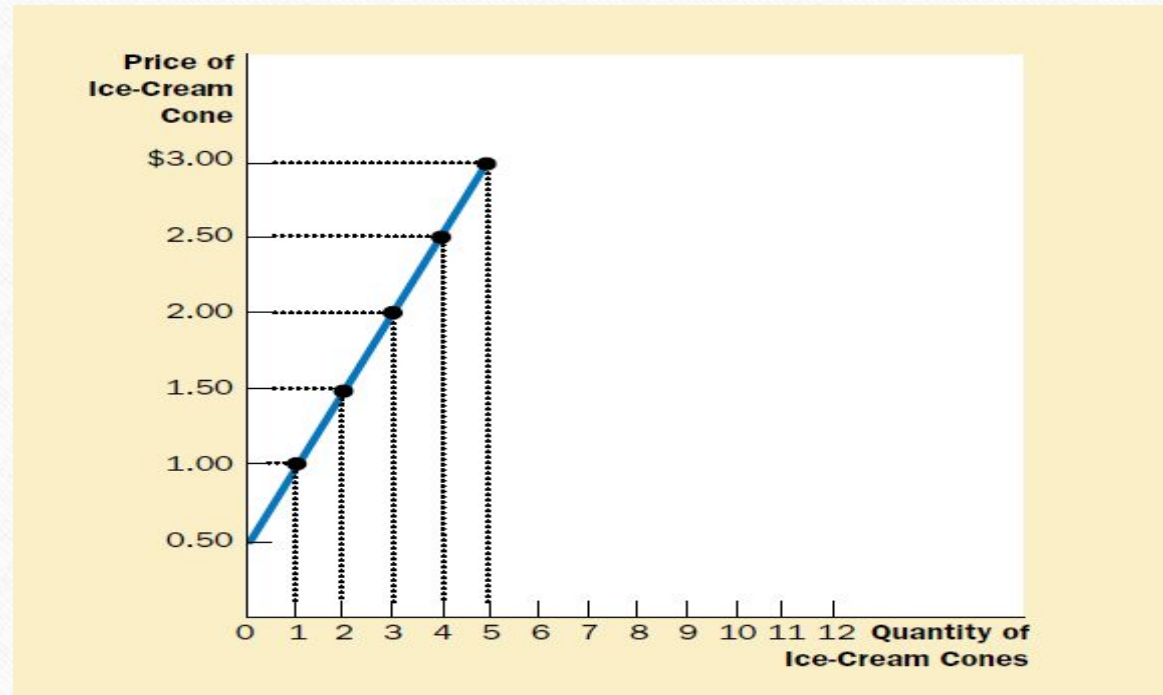
# Supply

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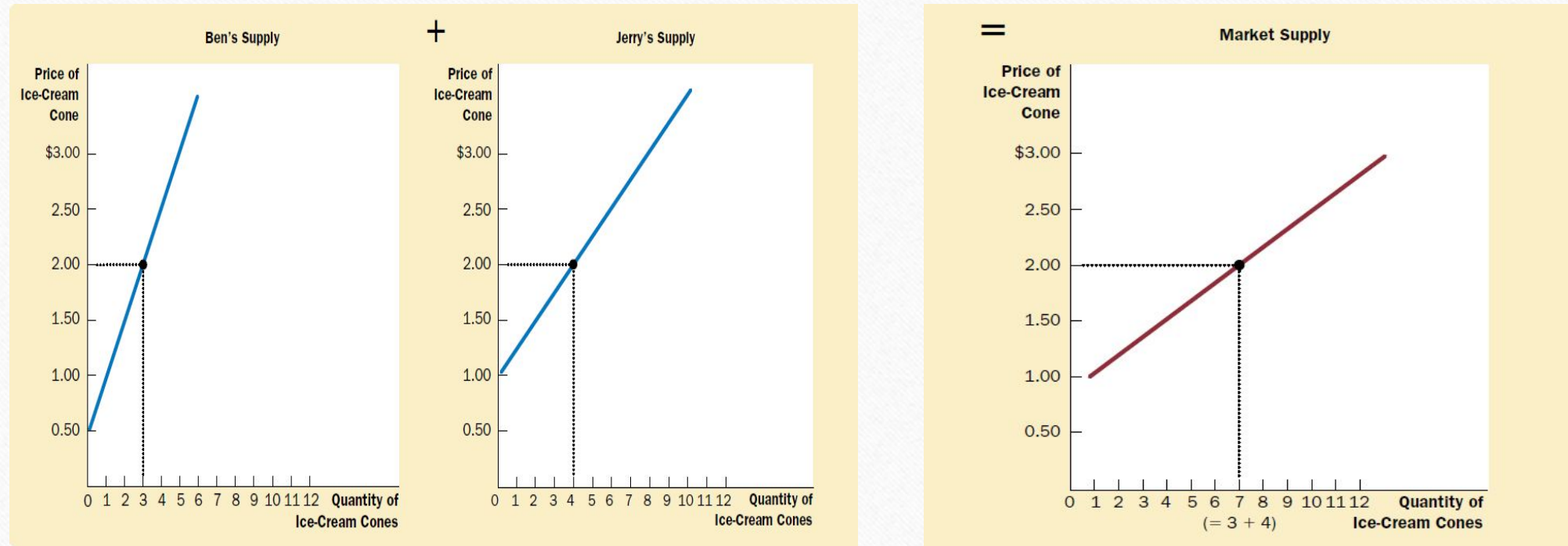
- Amount of goods that the producers are willing to sell
- Determinants
  - Price (Law of supply)
  - Input prices
  - Technology
  - Expectation

# Individual supply curve

| Price (\$) | Supply |
|------------|--------|
| 0.00       | 0      |
| 0.50       | 0      |
| 1.00       | 1      |
| 1.50       | 2      |
| 2.00       | 3      |
| 2.50       | 4      |
| 3.00       | 5      |



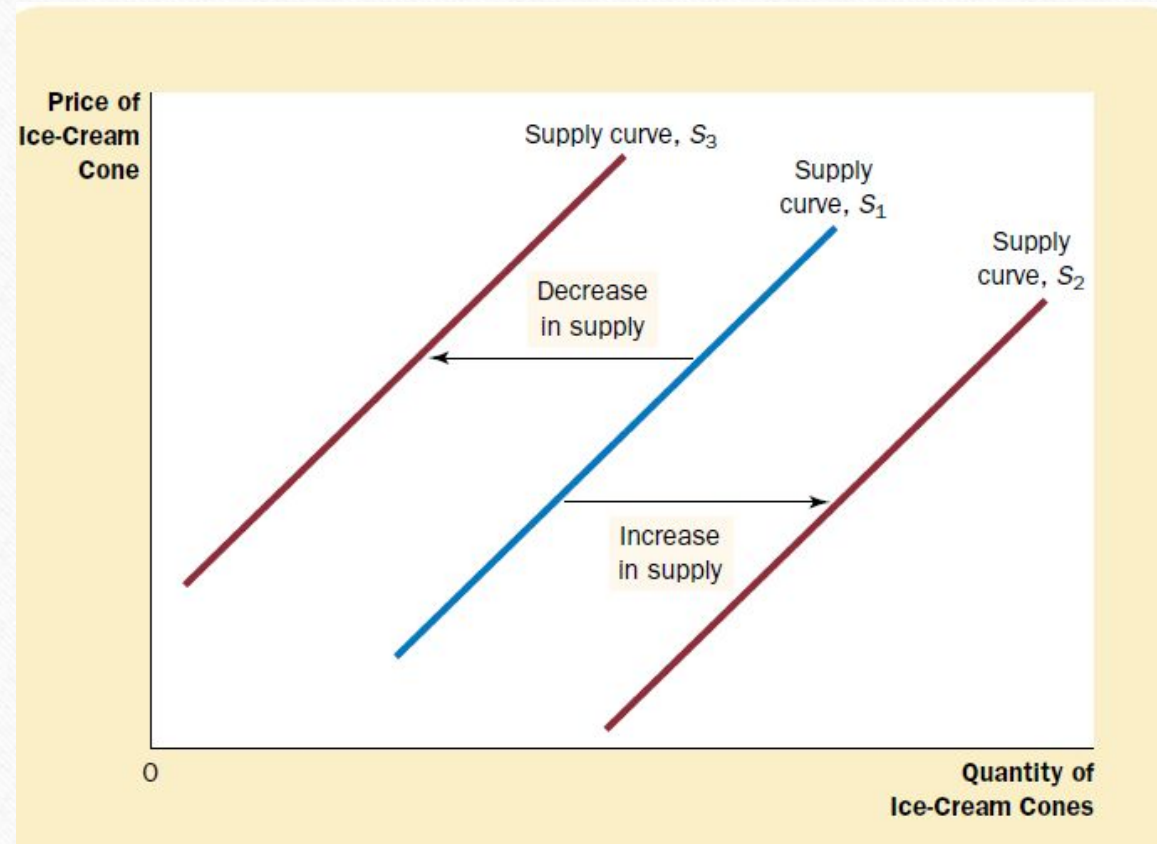
# Market supply





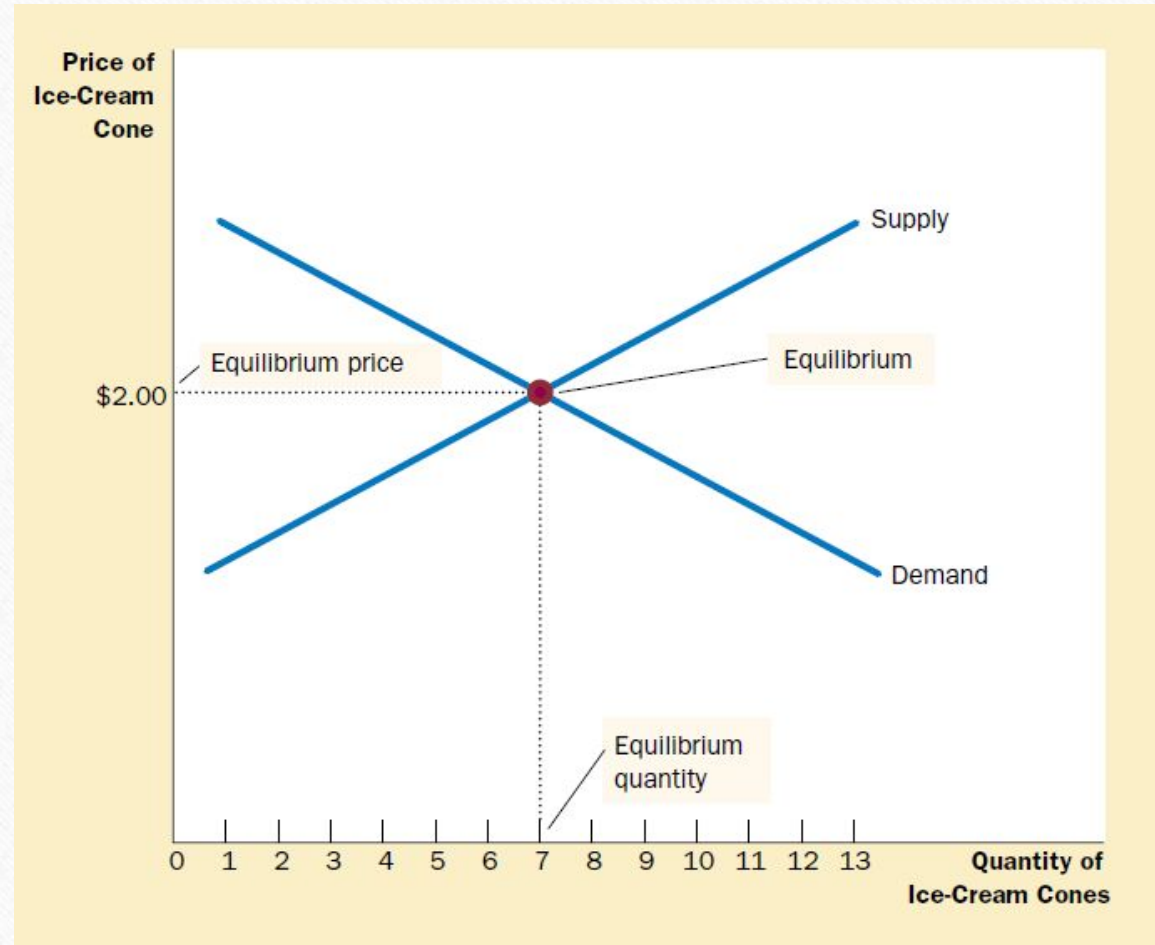
## Shift in supply curve

- Ceteris paribus-law of demand
- If one any of the other factor changes, there is a shift in demand curve

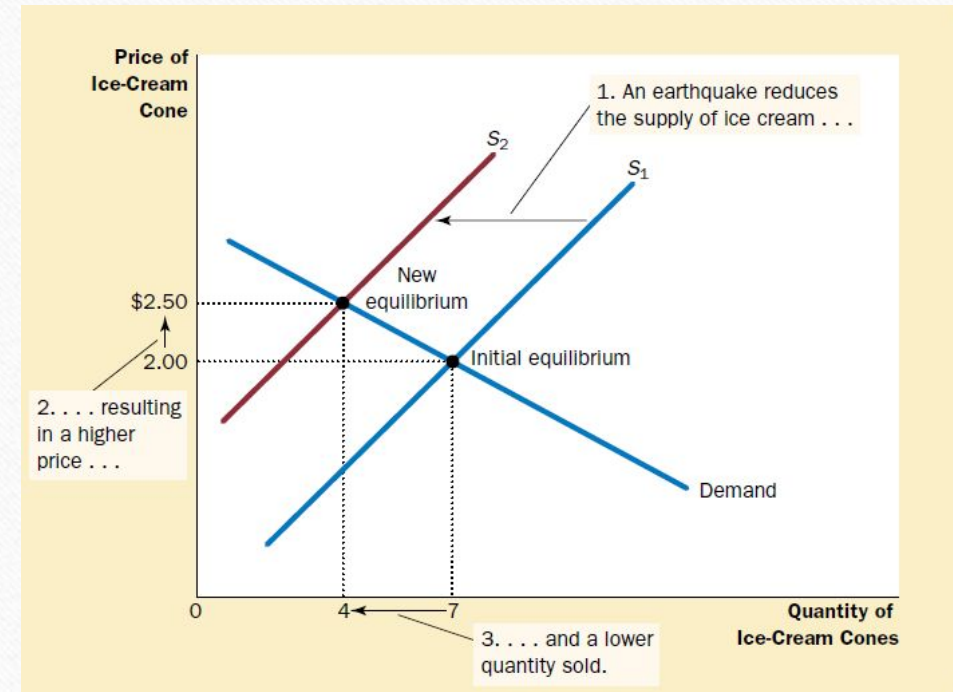
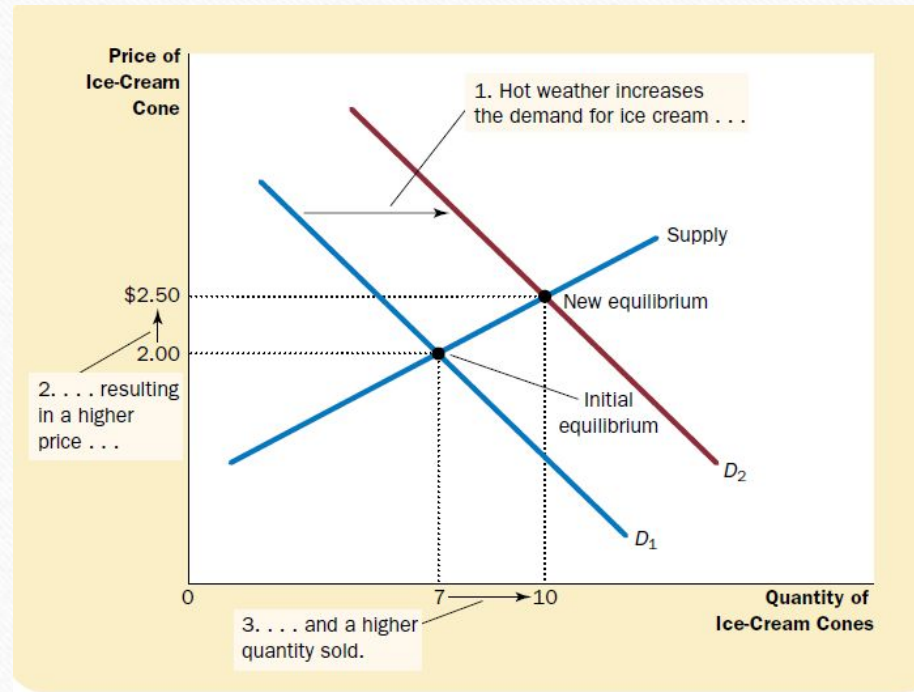


## Equilibrium

- When demand matches supply there is an equilibrium
- Other options: surplus and deficit



# Shift in demand and supply curve





# Simultaneous shifts

