Supply and demand

Market

Supply schedule

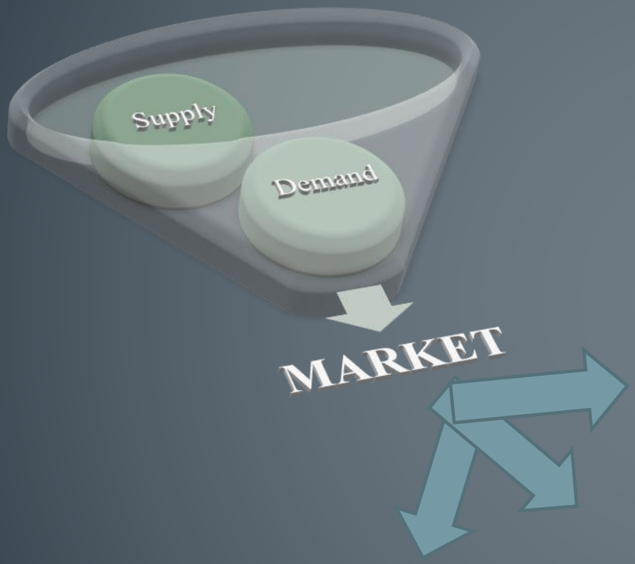
Demand schedule

Market

- A market is a place where two parties can gather to facilitate the exchange of goods and services. The parties involved are usually buyers and sellers. The market may be physical like a retail outlet, where people meet face-to-face, or virtual like an online market, where there is no direct physical contact between buyers and sellers.

- Technically speaking, a market is any place where two or more parties can meet to engage in an economic transaction—even those that don't involve legal tender. A market transaction may involve goods, services, information, currency, or any combination of these that pass from one party to another.

Market



The market is the mechanism that allows sellers and buyers to meet and determine the price at which the economic transactions take place.

The market is represented by the meeting place of the demand with the offer

From request confrontation with the offer, on the market, personalized works and services are formed for the purpose of exchanges

Market

JUST A NORMAL DAY AT THE NATION'S MOST IMPORTANT FINANCIAL INSTITUTION...
I'VE GOT A STOCK HERE THAT COULD REALLY EXCEL
REALLY EXCEL?
EXCEL?
SELL?
SELL?
SELL
SE
SELL!
SELL!
KAL '89
SELL!
SELL!
SELL!
THIS IS MADNESS! I CAN'T TAKE ANYMORE
GOOD BYE!
GOOD BYE?
BYE?
Buy?
BUY!
Buy!
BUY!!
Buy!
Buy!
I'VE GOT A STOCK HERE..

Types of Markets

Markets vary widely for a number of reasons, including the kinds of products sold, location, duration, size, and constituency of the customer base, size, legality, and many other factors. Aside from the two most common markets—physical and virtual—there are other kinds of markets where parties can gather to execute their transactions.

- A black market refers to an illegal market where transactions occur without the knowledge of the government or other regulatory agencies. Many black markets exist in order to circumvent existing tax laws. This is why many involve cash-only transactions or other forms of currency, making them harder to track.

Black market

- An auction market brings many people together for the sale and purchase of specific lots of goods. The buyers or bidders try to top each other for the purchase price. The items up for sale end up going to the highest bidder.
- The most common auction markets involve livestock and homes, or websites like eBay where bidders may bid anonymously to win auctions.

Auction market

- The blanket term *financial market* refers to any place where securities, currencies, bonds, and other securities are traded between two parties. These markets are the basis of capitalist societies, and they provide capital formation and liquidity for businesses. They can be physical or virtual.

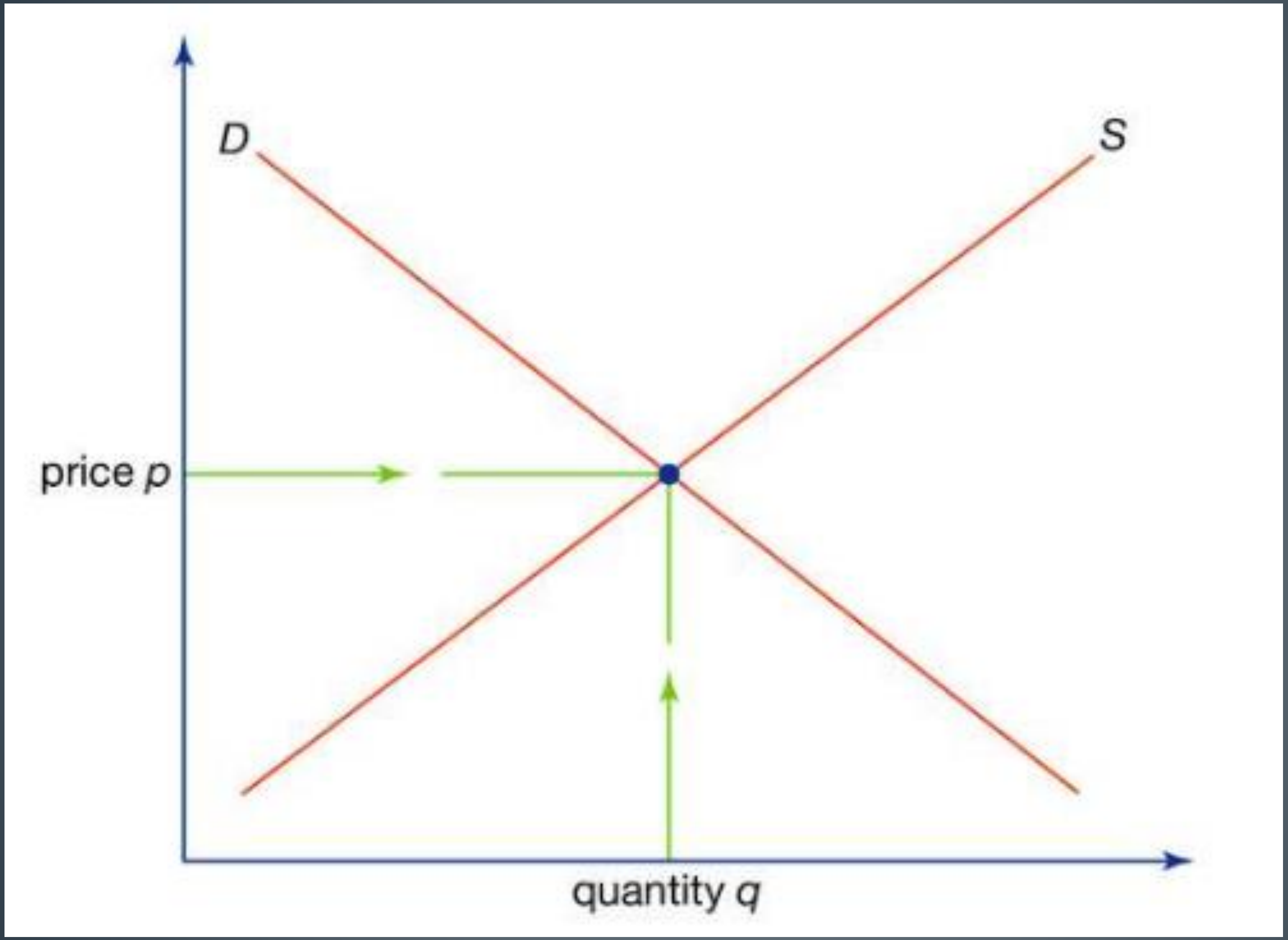
Financial market

Supply and demand

Supply and demand, in economics, relationship between the quantity of a commodity that producers wish to sell at various prices and the quantity that consumers wish to buy. It is the main model of price determination used in economic theory. The price of a commodity is determined by the interaction of supply and demand in a market.

The resulting price is referred to as the equilibrium price and represents an agreement between producers and consumers of the good. In equilibrium the quantity of a good supplied by producers equals the quantity demanded by consumers.

Supply and demand



Supply and Demand: Prices play a central role in the efficiency story. Producers and consumers rely on prices as signals of the cost of making substitution decisions at the margin. **How are prices determined?**

Demand

- ***The demand expresses the relation between the quantity of a merchandise, qualitatively homogeneous, desired by the buyer (consumer), which he is willing to purchase within a period of time and at the existing price.***

  - The consumer's purchasing power consists, first and foremost, of the money resources he has available, only these generating the solvable demand

  - The will to buy represents the subjective side of the decision to effectively allocate the money resources for the purchase of goods

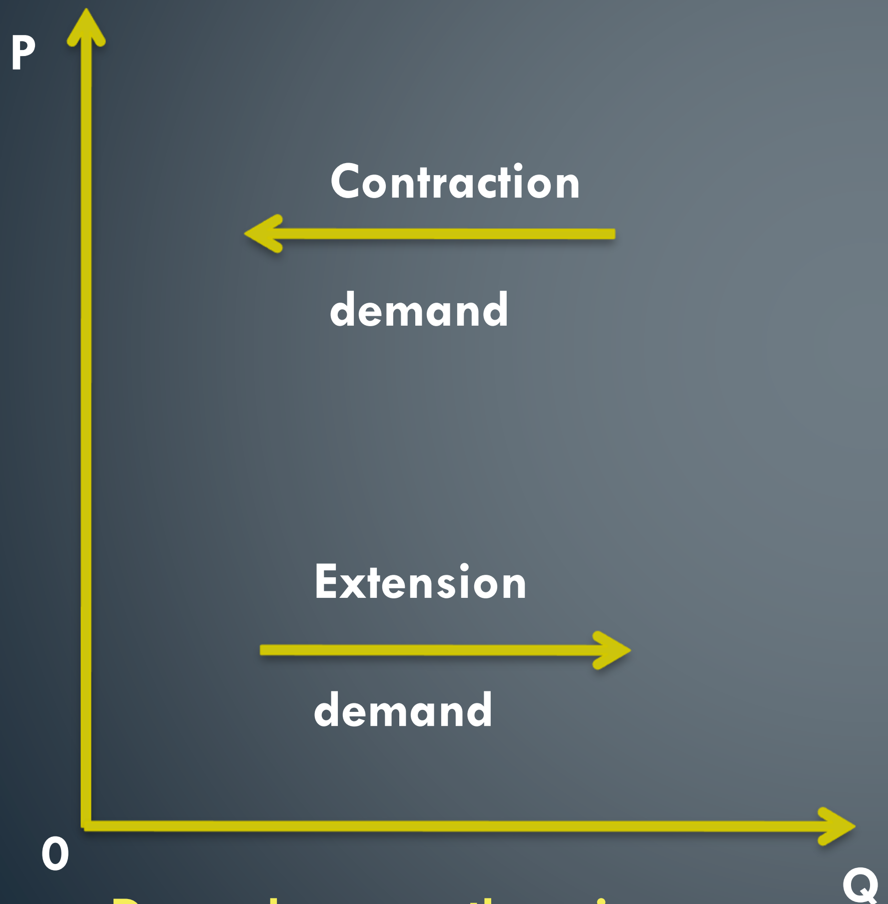
Demand

Demand curve

The **size** of the demand depends mainly on the level of the proposed price at the requested good and on the amount of the buyer's income

Demand **dynamics** are decreasing and are on a slope from left to right - when the price drops, demand increases in quantity

DEMAND



Dependence on the price

The size of the demand for a good varies in relation to the level and price change

Factors acting on demand

Modification of consumers' money income

- In the case of normal goods, there is a direct and positive relationship between the evolution of incomes and the demand for these goods.
- In the case of inferior goods, between the dynamics of income and demand there is a negative relationship.

Changing the price of other goods

The situation of two substitutable goods - between the change of the price of the good A and the demand for the good B there is a positive relation

- The price of butter increases

- The demand for margarine is increasing

The situation of two complementary goods - the relationship between the increase of the price of one good and the quantity demanded from the other is negative

e·on Energie

- The price of gas is rising

- Demand for thermal power plants decreases

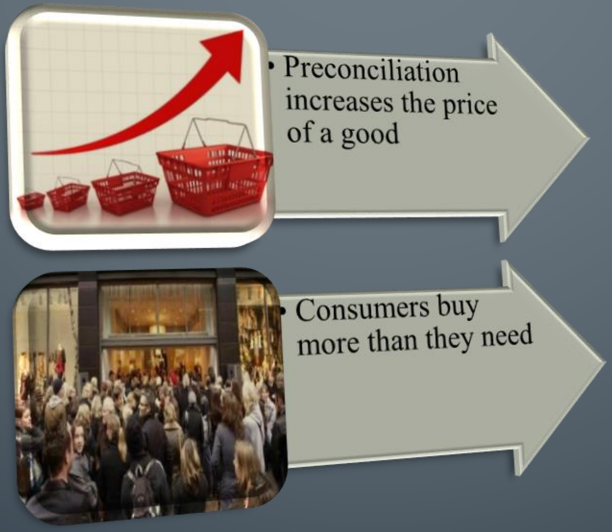
BAXI HEATING

Factors acting on demand

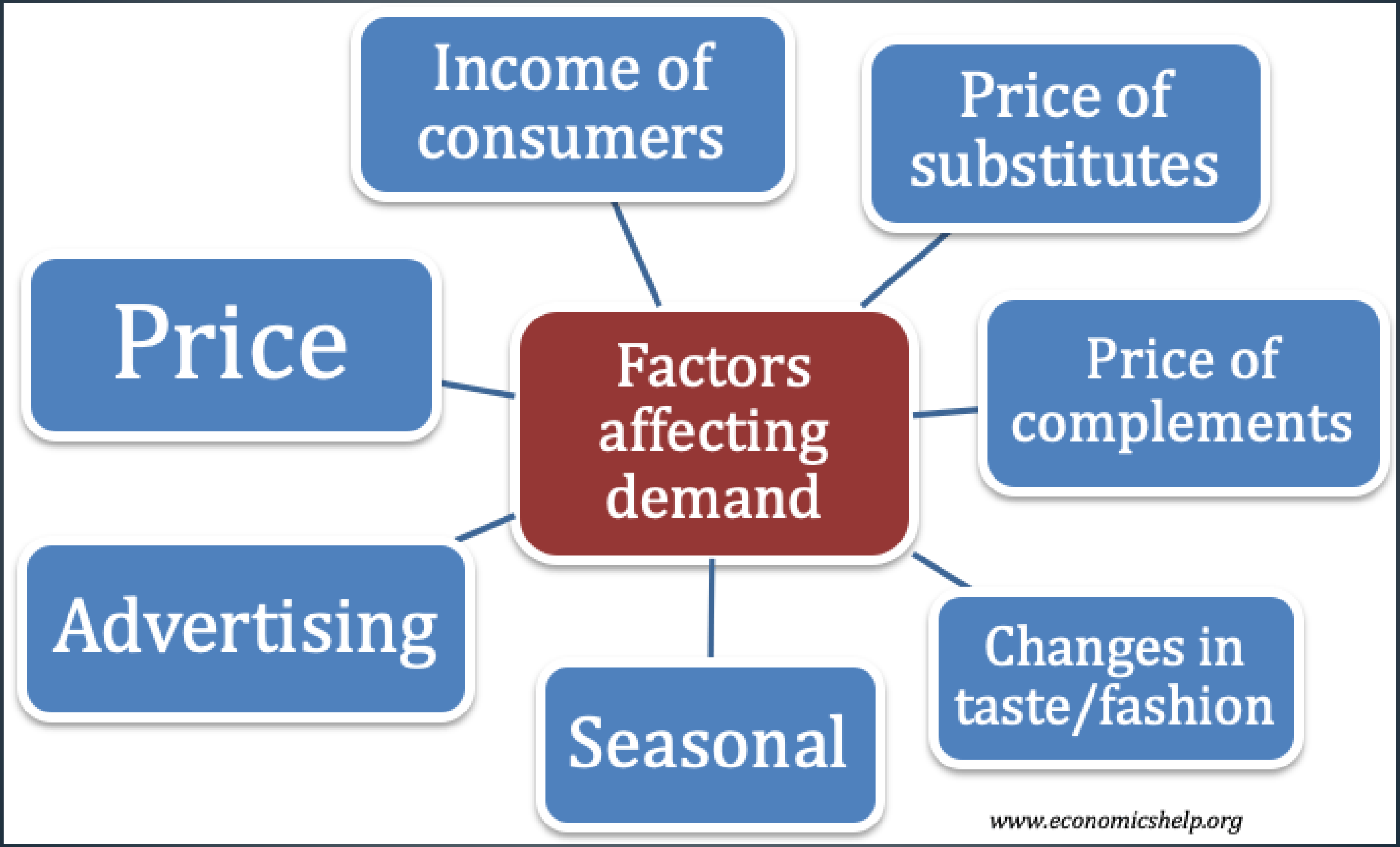
Number of buyers - between the number of buyers and the total quantity demanded there is a positive relationship

Buyer preferences - increasing consumer preferences for a good causes market demand to grow and vice versa

Anticipations regarding the evolution of prices and income - if the price increase of a good is expected, then the present demand for that good will increase.



Factors acting on demand



Price elasticity of demand

- Gradul de sensibilitate a cererii la schimbarea factorilor care o influențează poartă denumirea de elasticitatea cererii

unitary

- The changes of the two dependent variables take place in the same proportion
- ΔP = -10%
- ΔQ = 10%

inelastic

- When a unit price drops, the quantity demanded will increase by less than one unit
- ΔP = -10%
- ΔQ = 5%

elastic

- The quantity demanded of a good increases to a greater extent than the decrease of the price
- ΔP = -10%
- ΔQ = 20%

zero

- Although prices fall, the quantity remains unchanged
- ΔP = -10%
- ΔQ = 0

Perfectly elastic

- In the conditions of maintaining the price, the quantity demanded increases
- ΔP = 0
- ΔQ = 10%

abnormal

- The quantity requested increases in parallel with the price increase
- ΔP = 10%
- ΔQ = 10%

Price elasticity of demand

$$\text{Cross Price Elasticity of Demand Formula} = \frac{\%\ \text{Change in Quantity Demanded of Product A}}{\%\ \text{Change in Price of Product B}}$$

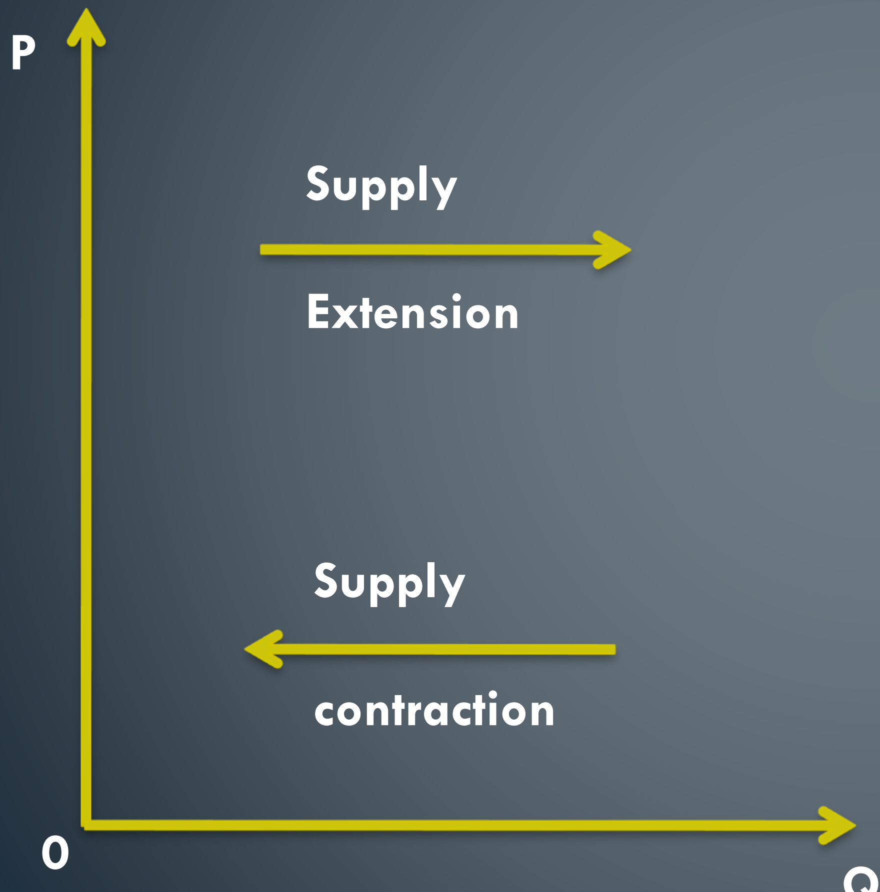
Supply

- **The supply represents a relationship between the quantity of a good material or service that the seller is willing to give, to offer, for a fixed period of time, at a fixed price, at the level of the existing price.**

- The offer is in direct relation with the level and the price change.

  - If the price of a commodity increases, the seller is willing to sell additional quantities on the market
  - If the price goes down, the seller tends to reduce the offer

SUPPLY



Supply dependence on the price

The increase of the offer with the increase of the price takes place only if the seller has stocks in the warehouse or if he has resources with which to supplement the offered lots of goods.

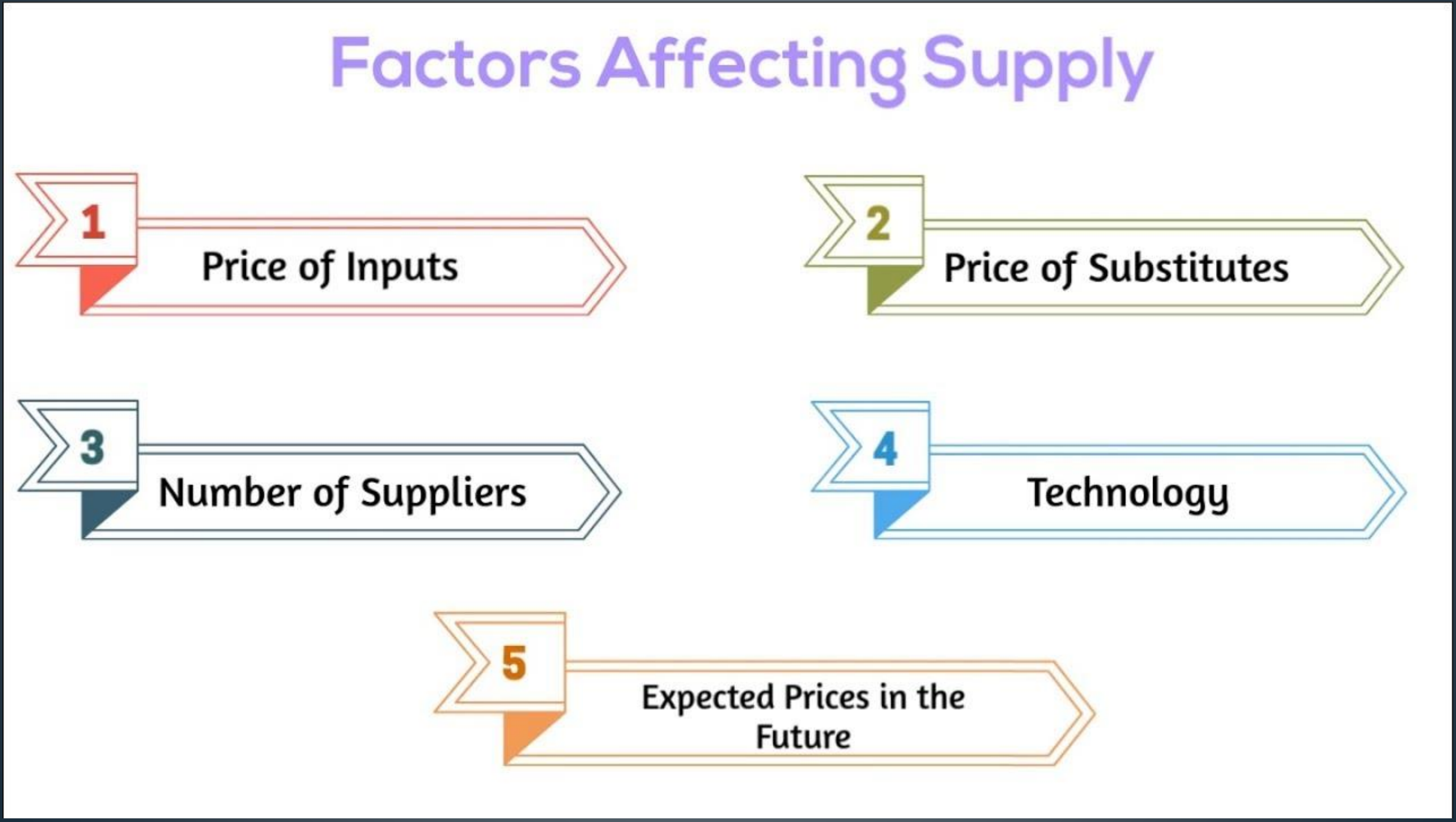
The offer cannot be can not be reduced substantially when prices fall markedly

The behavior of the manufacturer in relation to the change of price depends not only on the production possibilities but also on its production costs

Factors acting on the supply

- Level and dynamics of production cost
- Changes in the prices of other goods
- The number of companies that bring the same good to the market fees
- Forecasts on price developments
- Social-political events
- Natural conditions

Factors acting on the supply



Price elasticity of supply

- The sensitivity of the supply of goods to the variations of different factors, especially to the variations of prices, is called the elasticity of the offer

unitary	inelastic	elastic	zero	perfectly elastic
• The offer is modified to the same extent as the price change • $\Delta P = 15\%$ • $\Delta Q = 15\%$	• The supply of the good increases to a lesser extent than the increase in its price • $\Delta P = 15\%$ • $\Delta Q = 7{,}5\%$	• The offer exceeds that of the price • $\Delta P = 15\%$ • $\Delta Q = 30\%$	• Maintaining the quantity offered although the price of the good increases • $\Delta P = 15\%$ • $\Delta Q = 0$	• The volume of the offer of the good increases without changing its price • $\Delta P = 0$ • $\Delta Q = 15\%$

Price elasticity of supply

$$\text{Price Elasticity Formula} = \frac{(Q_f - Q_i)/(Q_f + Q_i)}{(P_f - P_i)/(P_f + P_i)}$$

$$\text{Price Elasticity of Supply} = \frac{(\Delta Q_s / Q_s)}{(\Delta P/P)}$$