

ECO101: INTRODUCTION TO
MICROECONOMICS

BRAC UNIVERSITY

DEMAND AND SUPPLY

**“TEACH A PARROT THE TERMS
SUPPLY AND DEMAND AND YOU’VE
GOT AN ECONOMIST.”**

THOMAS CARLYLE



DEMAND

- Demand means a willingness and capacity to pay.
Unless you are willing and able to pay for it, you may want it, but you don't demand it.
- **Three main characteristic's of demand**
- **(i)** Willingness and ability to pay.
- **(ii)** Demand is always at a price.
- **(iii)** Demand is always per unit of time.

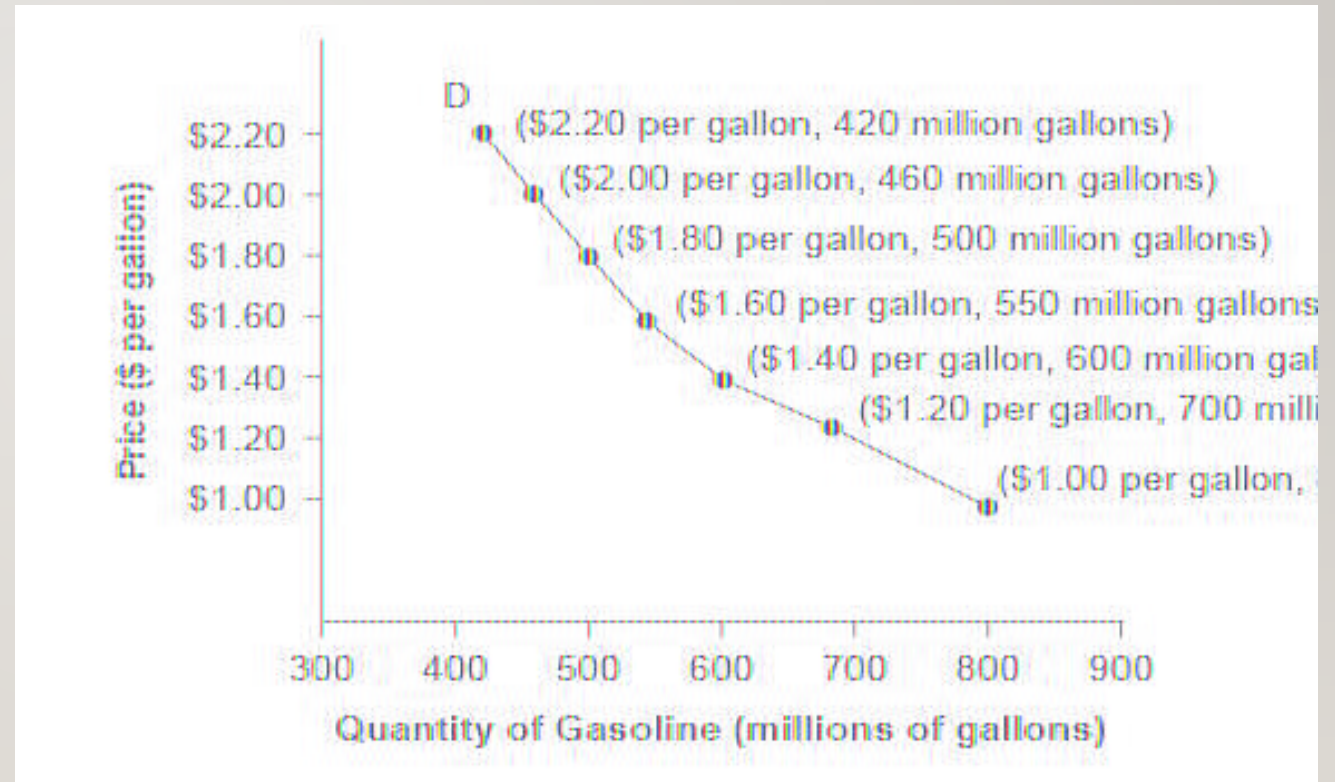
DEMAND SCHEDULE AND DEMAND CURVE

- A *demand schedule* is a table showing how much of a given product a household would be willing to buy at different prices.
- The *demand curve* is a graph illustrating how much of a given product one would be willing to buy at different prices.
- Demand curves are usually derived from demand schedules.

DEMAND SCHEDULE VS DEMAND CURVE

Price (per gallon)	Quantity demanded (millions of gallons)
\$1.00	800
\$1.20	700
\$1.40	600
\$1.60	550
\$1.80	500
\$2.00	460
\$2.20	420

Demand schedule



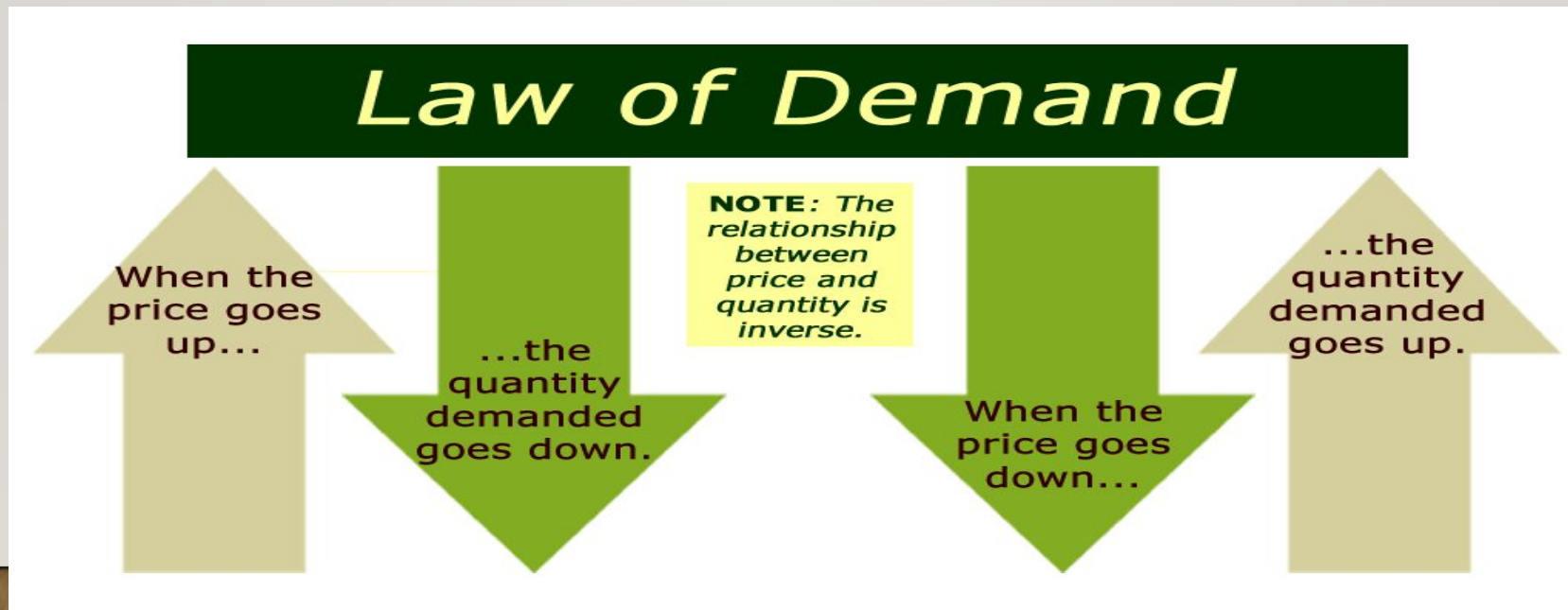
Demand curve

DEMAND VS QUANTITY DEMAND

- **Demand** is not the same as **Quantity Demanded**.
- **Demand** shows the relationship between a range of prices and the quantities demanded at those prices, as illustrated by a demand curve or a demand schedule.
- **Quantity demanded** means only a certain point on the demand curve or one quantity on the demand schedule.
- In short, **demand refers to the curve**, and **quantity demanded refers to a specific point on the curve**.

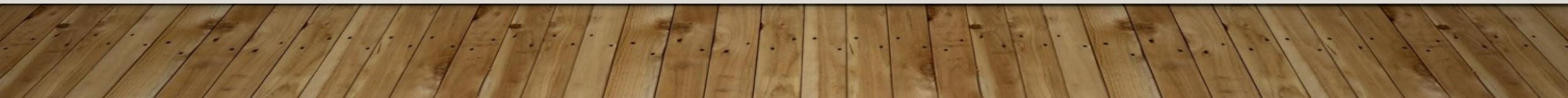
The Law of Demand

Ceteris paribus, an **increase** in price causes a **decrease** in the quantity demanded or a **decrease** in price causes an **increase** in quantity demanded.

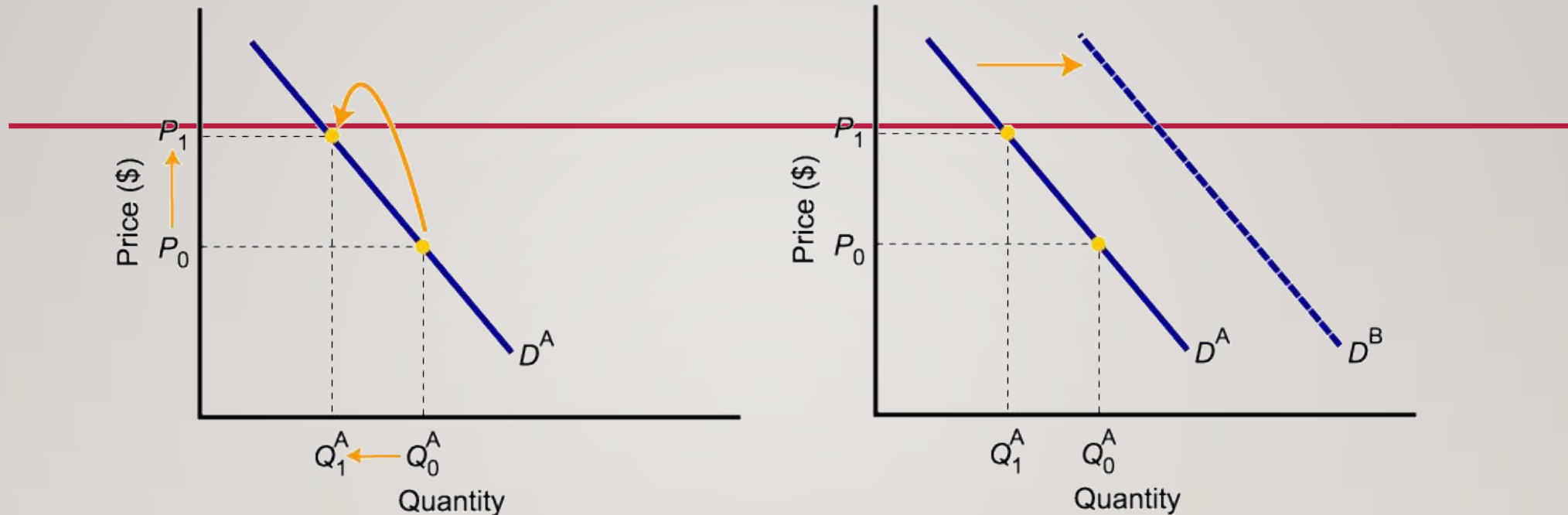


WHY DOES THE DEMAND CURVE SLOPE DOWNWARD?

- The law of demand states that as the price goes up, the quantity demanded goes down, other things constant.
- An alternative way of saying the same thing is that price and quantity de-manded are inversely related, so the demand curve slopes downward to the right.

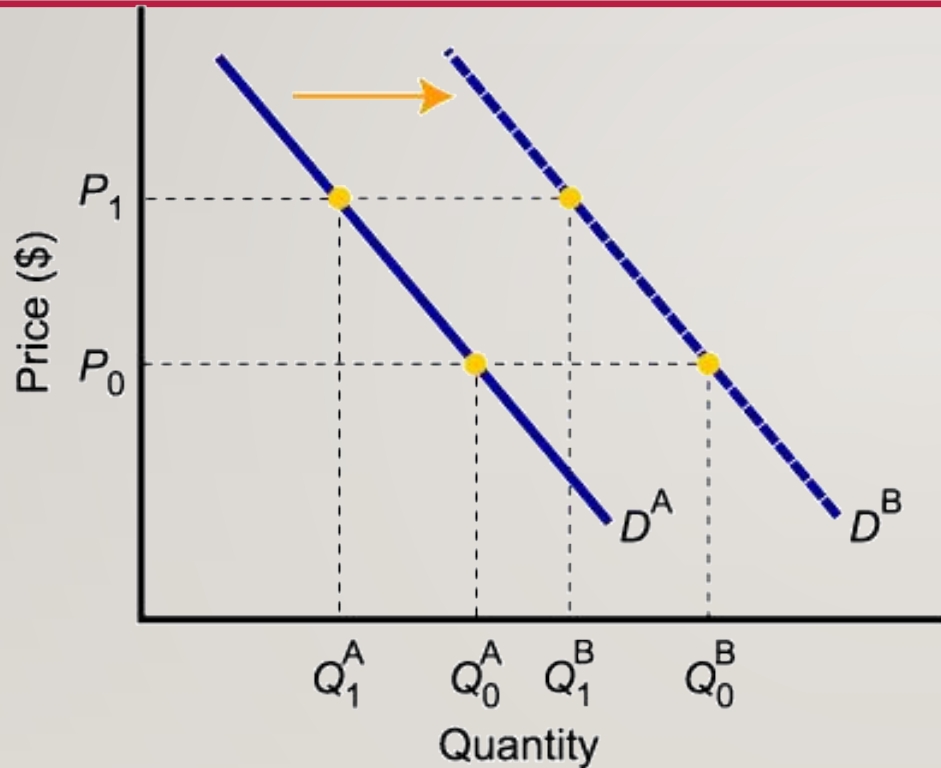


SHIFT OF DEMAND VERSUS MOVEMENT ALONG A DEMAND CURVE



- A change in **demand** is not the same as a change in **quantity demanded**.
- In the left diagram, a higher price causes lower **quantity demanded**.
- Changes in determinants of demand, other than price, cause a change in **demand**, or a **shift** of the entire demand curve, from D_A to D_B .

A CHANGE IN DEMAND VERSUS A CHANGE IN QUANTITY DEMANDED



- When ***demand shifts*** to the right, demand increases. This causes ***quantity demanded*** to be greater than it was prior to the shift, ***for each and every price level.***