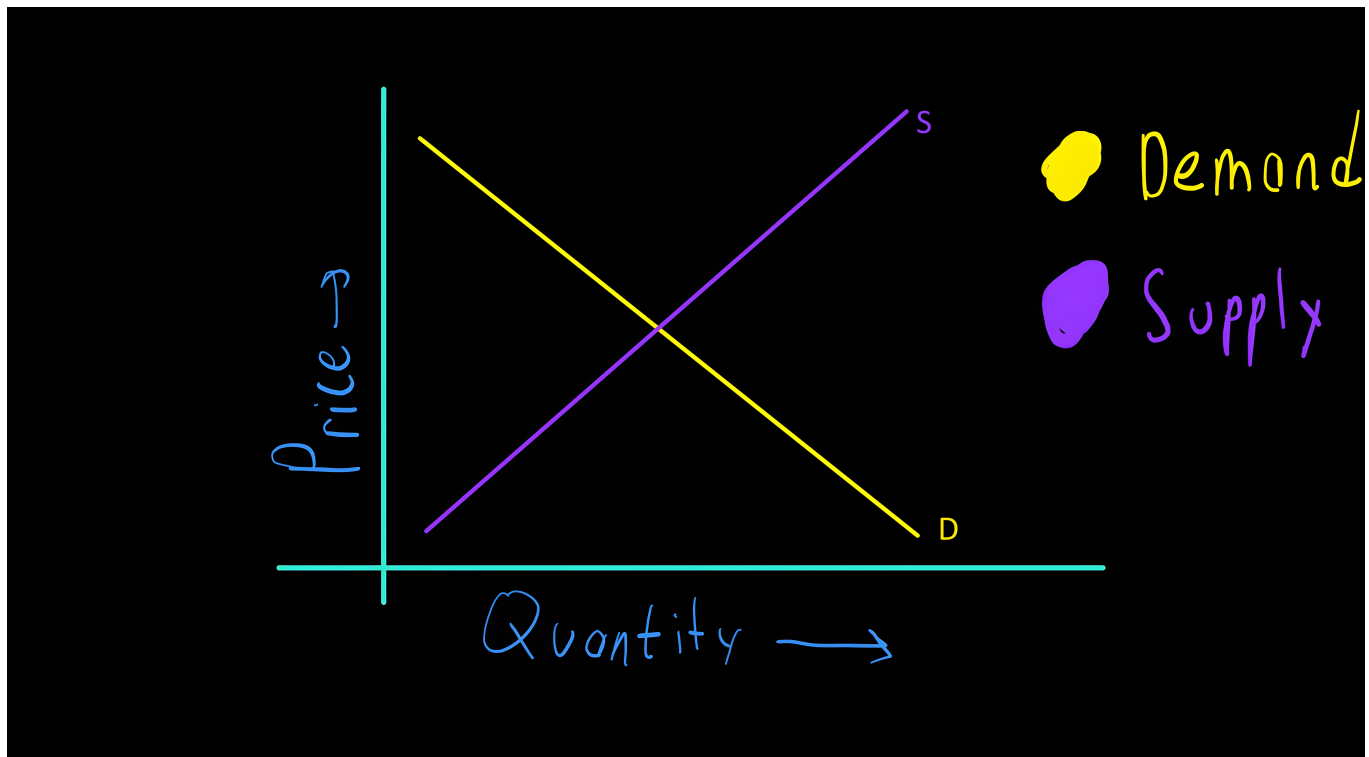


# Supply and Demand



## Law of Demand

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As the price of a good rises, the quantity of the good consumers are willing and able to buy will decrease.

### Why will it decrease?

1. Substitution Effect -- Changes in price motivate consumers to buy relatively cheaper substitute goods.
2. Income Effect -- Changes in price affect the purchasing power of consumers' income.
3. Law of Diminishing Marginal Utility -- buyers consume a good, each additional unit consumes provides less utility (satisfaction)

## Law of Supply

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As price rises, the quantity a seller is willing and able to sell will increase.

## The Intersection Point

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This is the equilibrium market price.

We can find equilibrium by looking where supply and demand intersect.