

# **DYNAMICS OF MARKET DEMAND AND SUPPLY**

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**Good Life ..!**



"To be a good human being is  
to have a kind of openness to the world,  
an ability to trust uncertain things  
beyond your own control,

*continued...*

## Good Life ..!



that can lead you to be  
shattered in very extreme circumstances  
for which you were not to blame.  
That says something very important  
about the human condition  
of the ethical life:

*continued...*

## Good Life ..!



that it is based on a trust in the uncertain  
and on a willingness to be exposed;  
it's based **on being more  
like a plant** than like a jewel,  
something rather fragile,  
but whose very particular beauty is  
inseparable from its fragility.”

- *Martha Nussbaum*

*The Fragility of Goodness:*

*Luck and Ethics in Greek Tragedy and Philosophy.*



## Art of Communication & Business Decision Making

**By using cool heads  
to inform warm hearts,  
Economics Science strives for  
achieving an efficient, prosperous,  
and just society!**

## The Economic Naturalist



***Why Economics Explains  
Almost Everything!!***

***Are Real Life Issues a  
Matter of Common Sense??***

## Do You Observe in the World Around You !



### Supply & Demand in Action

Why do computer manufacturers offer free *software* whose market value sometimes exceed the price of the computer itself?

Why are the most expensive flats in high-rise building in *Mumbai* those on the upper floors?

Why do airlines charge *higher* price per ticket in the current booking counter even when they fly half-empty?

Why have hindi movies been attracting larger (global) audience in recent years [Pointer – *IIFA Awards*]

## BUSINESS DECISION QUESTIONS..?



What are the economic conditions in a particular market in which we are or could be competing?

- market structure
- supply & demand conditions
- technology
- government regulations
- international dimensions
- present & future macroeconomic environment

Should our FIRM be in the business?

- if so, what price & output levels should we set in order to ***maximise our economic profit*** or ***minimise our losses*** in the short-run?

## BUSINESS DECISION QUESTIONS..?



How can we organise & invest in our resources - *land, labour, capital* or *managerial skills* (organisation), to maintain competitive advantage over other firms in the market?

cost  
leader

product  
differentiation

focus  
on  
market  
niche

outsourcing,  
alliances,  
mergers &  
acquisitions

international  
dimensions:  
regional,  
country, or  
expansion

## BUSINESS DECISION QUESTIONS..?



Typical types of risk that business face?  
- PESTEL Analysis

- changes in demand & supply conditions
- technological changes & the effect of competition
- changes in interest rates & inflation rates
- exchange rate changes for companies engaged in international trade/outsourcing
- political risk for companies with foreign operations

## Diane Swank: *The Passionate Economist* !



Economics is  
probably  
**NOT**

- what you think
- primarily about money or finance not even mathematics
- not about data/charts/numbers/tables
- about movers & shakers

*Oiko (household) + nomia (norms/rules/regulations):  
Simply, Managing household*

Economics  
**IS** study of

- how humans make individual/ family/ societal decisions in the face of scarcity
- a **Behavioural** science
- decision making & choices for analyzing aggregate economic/societal outcomes

## **Managerial Economics for Managers**

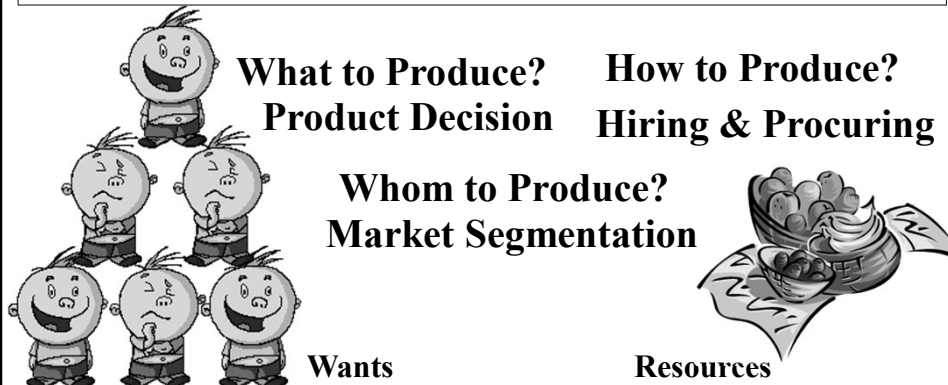


1. Who are my consumers & potential consumers
2. What am I producing: my output?
3. How am I producing
  - Input & output relation (l, L, K & E/O)
  - Are costs increasing or decreasing
  - Change in output when one input changes
    - will it help in reducing costs:– l, L, K & E/O
4. Optimum firm size & optimum (best) price
  - Is there a scope & should I increase production
  - Product differentiation and Price Discrimination
  - Can I increase my sales? Will a price cut help?
5. How do I measure, manage & sustain profit?
  - Choice of projects & new investment decisions

## Economics



*Allocation of scarce resources which have alternative uses*  
*Study of how society chooses to use scarce (limited) resources (to produce & distribute goods & services) to attain maximum satisfaction of unlimited wants*



*Lionel Robbins*

*An Essay on the Nature and Significance of Economic Science*

## ECONOMIC SCARCITY

*Unlimited Wants vs. Limited Resources*

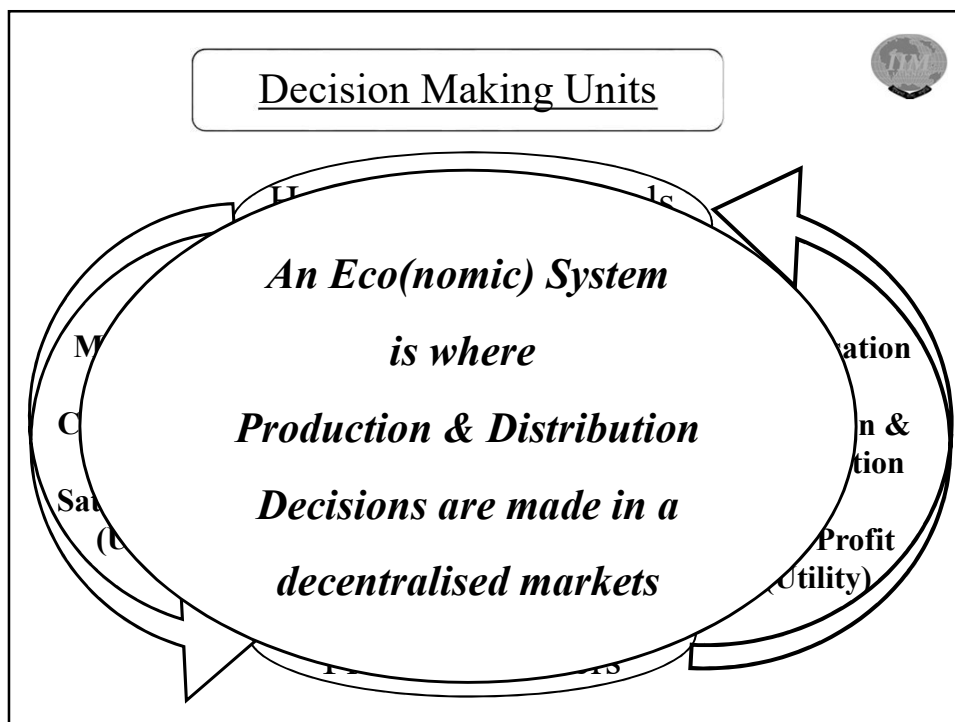
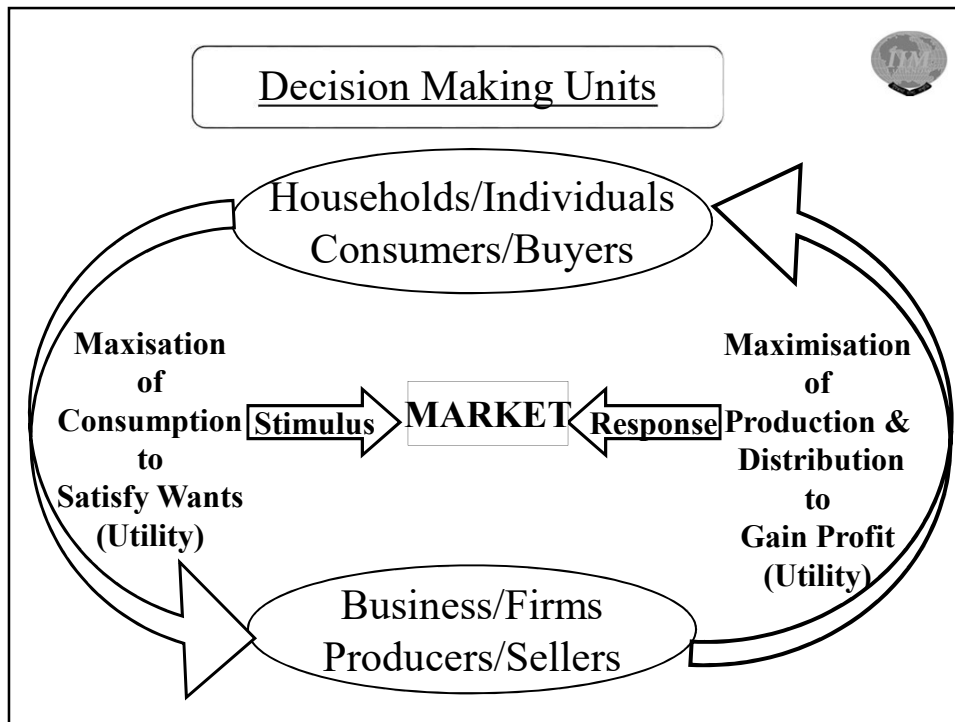


### Unlimited Human Wants

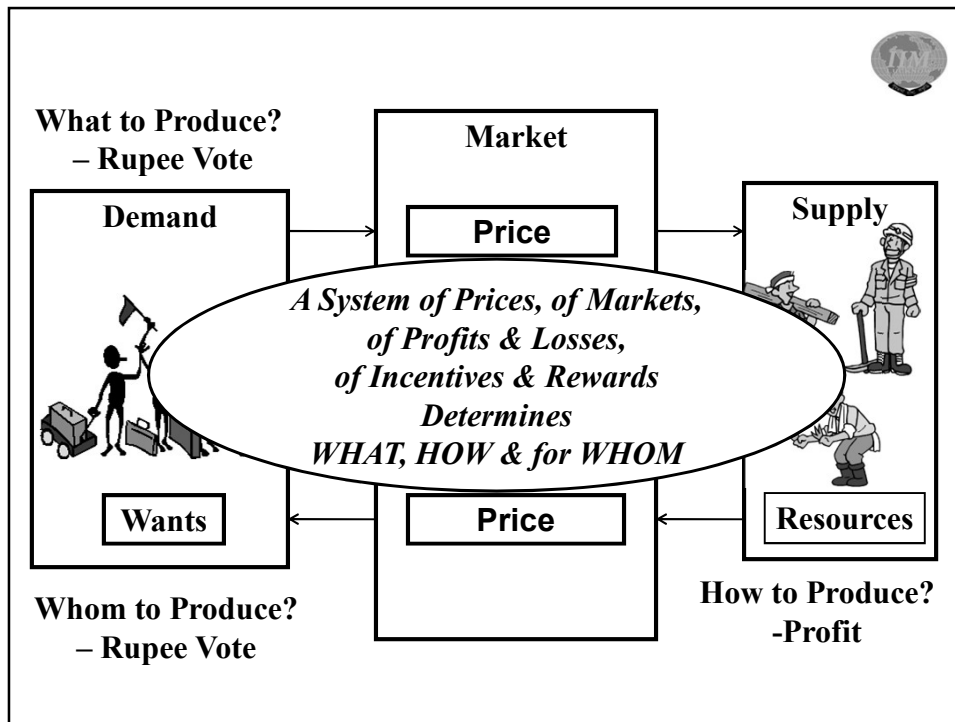
- insatiable wants
- desire backed up by purchasing power [food/cloth]
- **human wants: bigger/better/more**

### Limited/Scarce Resources

- economic resources/goods finite/scarce
- scarcity:— price or *pay for it*
- varied resources: land/labour/capital/organisation
- technology: society's knowledge pool (industrial art) sets production limit
- **scarcity: limited but wanted**







## DEMAND: The Concept ..!

👍 The Meaning of Demand for a Good/Service

- ☞ desire to have
- ☞ willingness/wish to pay
- ☞ ability to pay

Definition: *DD is that which implies a desire backed by the ability and the willingness to pay*

👍 Dimensions

- ☞ consumer wish to purchase at a given/particular price; *ceteris paribus* (other things remaining same)
  - ☛ “quantity demand(ed) at that price”
- ☞ Qty *DD* for a *specific* period of time
- ☞ Qty *DD* is a *flow* variable

## Supply: The Concept ..!



👉 The Meaning of Supply of a Good/Service  
*Qty of good/services that producers are  
willing to sell at a given price;  
ceteris paribus*

### 👉 Dimensions

- 👉 quantity of goods/services that firms wish to produce & sell at a given price
  - ☛ “quantity supply(ied) at that price”
- 👉 Qty SS for a *specific* period of time
- 👉 supply is a *flow* variable

## The Supply Schedule/Curve



👉 The Supply Schedule/Curve  
*for a good shows the relationship between its market  
price & the amount of that commodity that producers are  
willing to produce & sell, ceteris paribus  
the qty of goods that producers are willing to sell at a  
price*

### 👉 Factors Influence Supply

- 👉 “own price”
- 👉 cost of production
  - ☛ input prices, wages & interest rate charges
  - ☛ technological know-how
- 👉 government policy
- 👉 other variables: weather, expectations

## Equilibrium ..!



### The Meaning

*The condition of a system in which competing influences are balanced; resulting in no net change a state of stasis*



### The Market Equilibrium

- ☞ demand & supply are two opposite forces
- ☞ the qty of *DD*(ed) equals to the qty of *SS*(ied) at a given price: the equilibrium price
- ☞ buyers(sellers) are satisfied with their quantity of purchase(offer) plans at that market price
- ☞ no tendency of buyers/sellers to alter their behaviour
- ☞ no tendency for prod<sup>n</sup>/prices to change

## Rationing Function of Price *Equilibrium or Market Clearing Prices*



### Surplus

- ☞ If Price > P\*, then  $Q_S > Q_D$
- ☞ a case of *excess supply* at that price
- ☞ price will fall to adjust to equilibrium  $Q_S = Q_D$



### Shortage

- ☞ Price < P\*, then  $Q_D > Q_S$
- ☞ a case of *excess demand* at that price
- ☞ price will rise to adjust to equilibrium  $Q_D = Q_S$



### Law of Supply & Demand

- ☞ Market mechanism has the tendency in a free market for the price to adjust until market clears, i.e.,  $Q_S = Q_D$

## The Determinants of INDIVIDUAL's Demand

- 👍 Price of a Good/Service: “own price”
- 👍 *Price & Quantity of Related Goods/Services*
  - ☞ prices of other related goods/services: “cross-price”
  - ☞ substitutes & complements
  - ☞ quantities of other related goods/services
- 👍 *Consumer's Tastes & Preferences*
- 👍 *Consumer's Income*
- 👍 *Other Socio-Economic/Cultural/Environmental factors*
  - ☞ age and family size
  - ☞ expectations [*& bandwagon effect*]
  - ☞ idiosyncrasy
  - ☞ wealth
  - ☞ weather

## Deriving the Demand Curve The Rationale ..!

### Non-Price Determinants

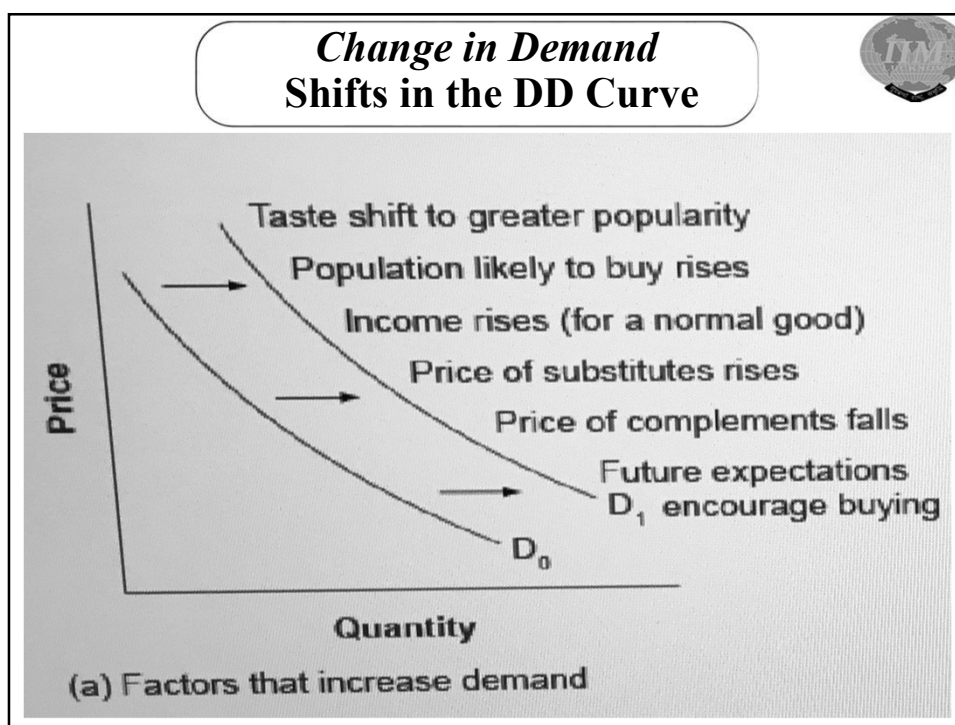
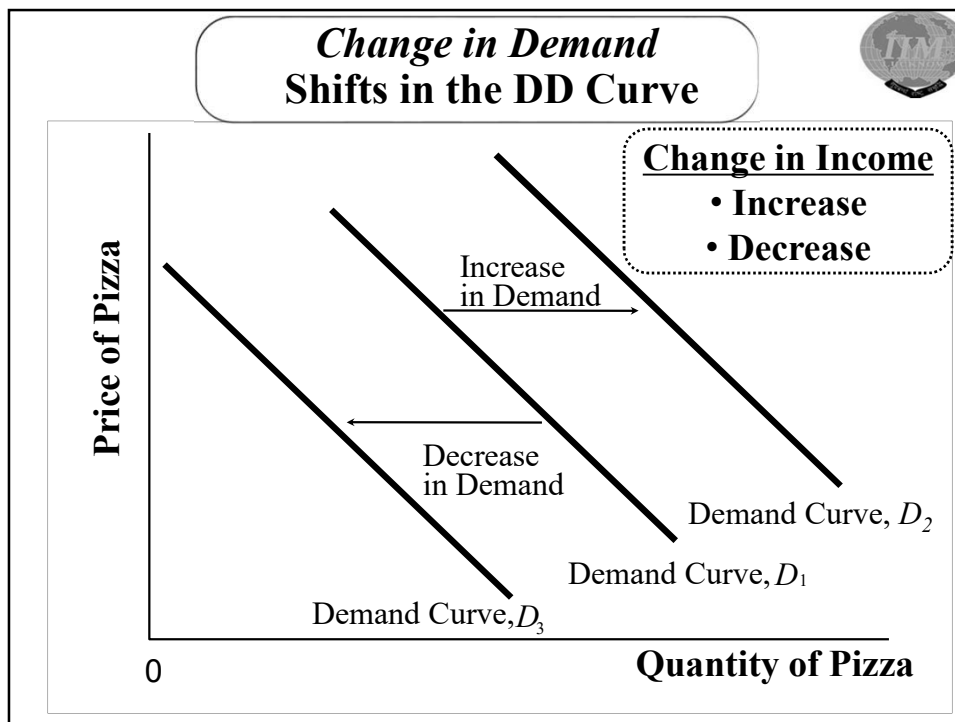
- price of related products
- tastes & preferences
- income & wealth
- future expectations
- number of buyers

Constant

Short-Run

Changes

Long-Run



## Shifts in the Supply Curve



### Movement Along the Supply Curve



A up(down) movement along the SS curve is due to a change in – rise (decrease) in the price only, and it is called as *change in quantity supplied*



### Shifts in the Supply Curve



A rightward/leftward shift in the SS Curve is due to *change (increase/decrease) in SS* at a given price



### Reasons for the Shifts (other than Price)



change in the price of inputs



improvement in technology



expectations



number of sellers

## Shifts in the Supply Curve

