Ch 4. The Market forces of Supply and Demand

- **Competitive market :** Many buyers and many sellers, each has **a negligible** impact on market price
- Perfectly competitive market: same goods. NO one can affect the market price… "Price takers"

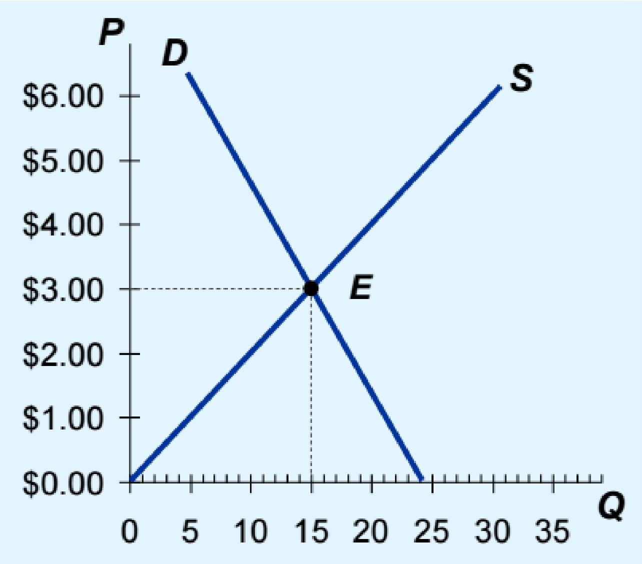
- **Demand, or Quantity demanded**
  - Amount of a good that buyers are willing and able to purchase
- **Law of demand** : Other things equal, when the price of a good rises, the
- quantity demanded of the good falls, and when the price falls, the quantity demanded rises
- Demand schedule & Demand curve(downward sloping)
- Individual demand vs. Market demand

- **Demand curve shifters : Non-price determinants of demand**
  - Changes in them shift the D curve
  - Caution!! Movement along(on) the curve vs. Shift of the curve
- **1. Number of buyers**
- **2. Income**
  - Normal good: Increase in income leads to an increase in demand
  - Inferior good: Increase in income leads to a decrease in demand
- **3. Prices of related goods**
  - Substitutes : Increase in the price of one leads to an increase in the demand of the other. Ex) Pizza and hamburger
  - Complements : increase in the price of one leads to a decrease in the demand for the other. Ex) Bagels and cream cheese
- **4. Tastes**
  - Ex) Preference on SUV, Games, Foods….

- **Supply, or Quantity supplied**
  - Amount of a good that sellers are willing and able to sell
- **Law of supply** : Other things equal, when the price of a good rises, the
- quantity supplied of the good rises, and when the price falls, the quantity supplied falls
- Supply schedule & Supply curve(upward sloping)
- Individual suppy vs. Market supply

- **Supply curve shifters : Non-price determinants of supply**
  - Changes in them shift the S curve
- **1. Input prices**
  - Supply is negatively related to prices of inputs. A fall in input prices makes production more profitable at each output price
- **2. Technology**
  - A cost-saving technological improvement has the same effect as a fall in input prices, shifts S curve to the right
- **3. Number of sellers**
- **4. Expectation about future**
  - Sellers may adjust supply when their expectations of future prices change

- **Supply and demand together**
- Equilibrium:
  - Price and Quantity
  - Surplus
  - Shortage



- **Three steps to analyzing changes in equilibrium**
- Decide which curve shifts,
- and where to (right or left)
- Use the diagram and compare the initial and the new equilibrium

- **Case study : Hybrid Cars Market**
- **1. Increase in the price of gas → demand curve shifts**
- **2. New hybrid cars technology → Supply curve shifts**
- **3. If, both of them change at the same time → ??**