UNIT-I DEMAND AND SUPPLY

Principles of Demand and Supply

Demand:

1. **Law of Demand:** As the price of a good falls, the quantity demanded generally rises, and vice versa.
2. **Determinants of Demand:** Factors such as income, tastes and preferences, prices of related goods, and expectations.

Supply:

1. **Law of Supply:** As the price of a good rises, the quantity supplied generally rises, and vice versa.
2. **Determinants of Supply:** Factors such as production technology, costs of resources, prices of related goods, expectations, and number of sellers.

Supply Curves of Firms

Elasticity of Supply:

1. **Price Elasticity of Supply (PES):** Measures the responsiveness of quantity supplied to a change in price.
   - **Formula:** PES = % change in quantity supplied / % change in price.
   - **Elastic Supply:** PES > 1
   - **Inelastic Supply:** PES < 1
   - **Unitary Elastic Supply:** PES = 1

Demand Curves of Households

Elasticity of Demand:

1. **Price Elasticity of Demand (PED):** Measures the responsiveness of quantity demanded to a change in price.
   - **Formula:** PED = % change in quantity demanded / % change in price.
   - **Elastic Demand:** PED > 1
   - **Inelastic Demand:** PED < 1
   - **Unitary Elastic Demand:** PED = 1

2. **Income Elasticity of Demand:** Measures the responsiveness of quantity demanded to a change in income.
   - **Formula:** Income Elasticity = % change in quantity demanded / % change in income.
   - **Normal Goods:** Positive Income Elasticity
   - **Inferior Goods:** Negative Income Elasticity
3. **Cross-Price Elasticity of Demand:** Measures the responsiveness of quantity demanded of one good to a change in the price of another good.
   - **Formula:** Cross-Price Elasticity = % change in quantity demanded of Good A / % change in price of Good B.
   - **Substitutes:** Positive Cross-Price Elasticity
   - **Complements:** Negative Cross-Price Elasticity

Equilibrium and Comparative Statics

Equilibrium:

1. **Market Equilibrium:** Occurs where quantity demanded equals quantity supplied.
   - **Equilibrium Price:** The price at which the market clears.
   - **Equilibrium Quantity:** The quantity bought and sold at the equilibrium price.

Comparative Statics:

1. **Shift of a Curve:** When the demand or supply curve shifts due to changes in determinants (e.g., income, technology).
   - **Shift in Demand:** Can result in a new equilibrium price and quantity.
   - **Shift in Supply:** Can result in a new equilibrium price and quantity.
2. **Movement along the Curve:** Changes in quantity demanded or supplied in response to price changes, leading to movements along the demand or supply curve.