Introduction of economics

: Market Equilibrium

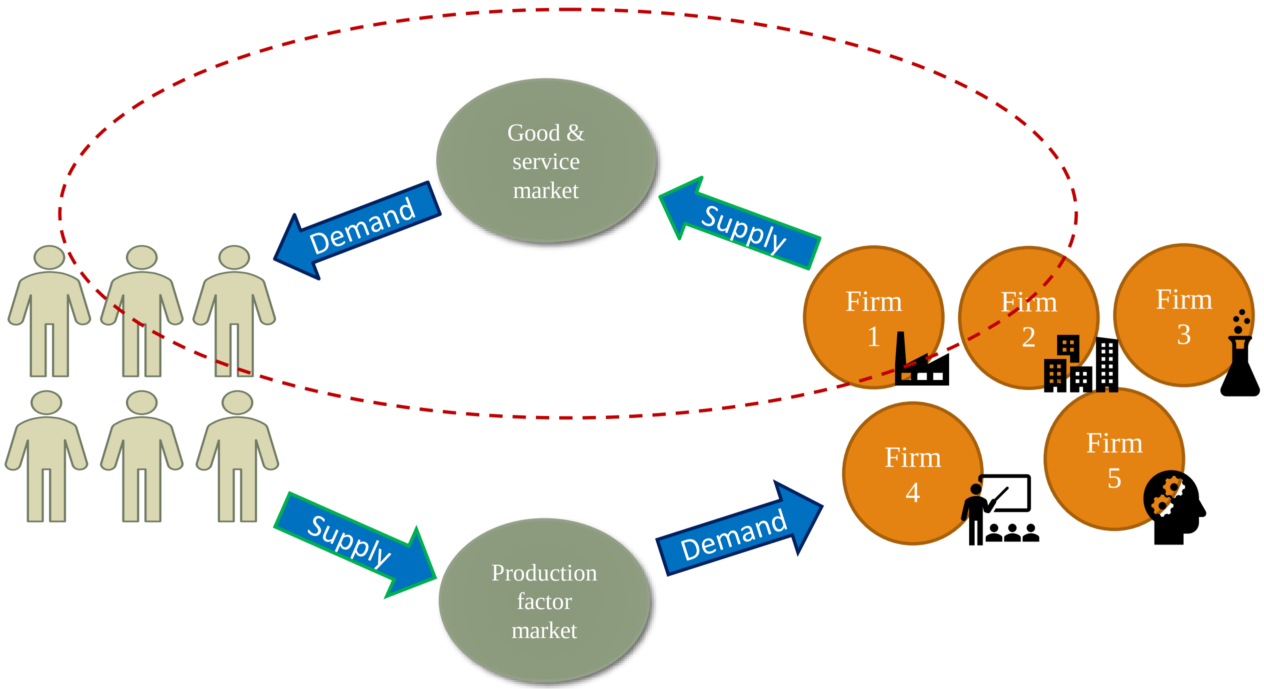
HANDONG GLOBAL UNIVERSITY

0. Introduction

In this week, we will learn about:

- Demand, Supply, and Equilibrium in Markets for Goods and Services
- Shifts in Demand and Supply curves
- Changes in Equilibrium Price and Quantity
- Price Ceilings and Price Floors

Market Equilibrium



1. Demand curve

Demand the amount of some good or service consumers are willing and able to purchase at each price.

Demand for each good and services can be obtained by individual consumer's preference and their budgets.

Demand represent the amount of wiliness to pay of the society.

1. Demand curve

The total number of units purchased at that price is called the quantity demanded.

So, In economic terminology, demand is not the same as quantity demanded.

Demand is mean the relationship between a range of prices and the quantities demanded at those prices.

1. Demand curve

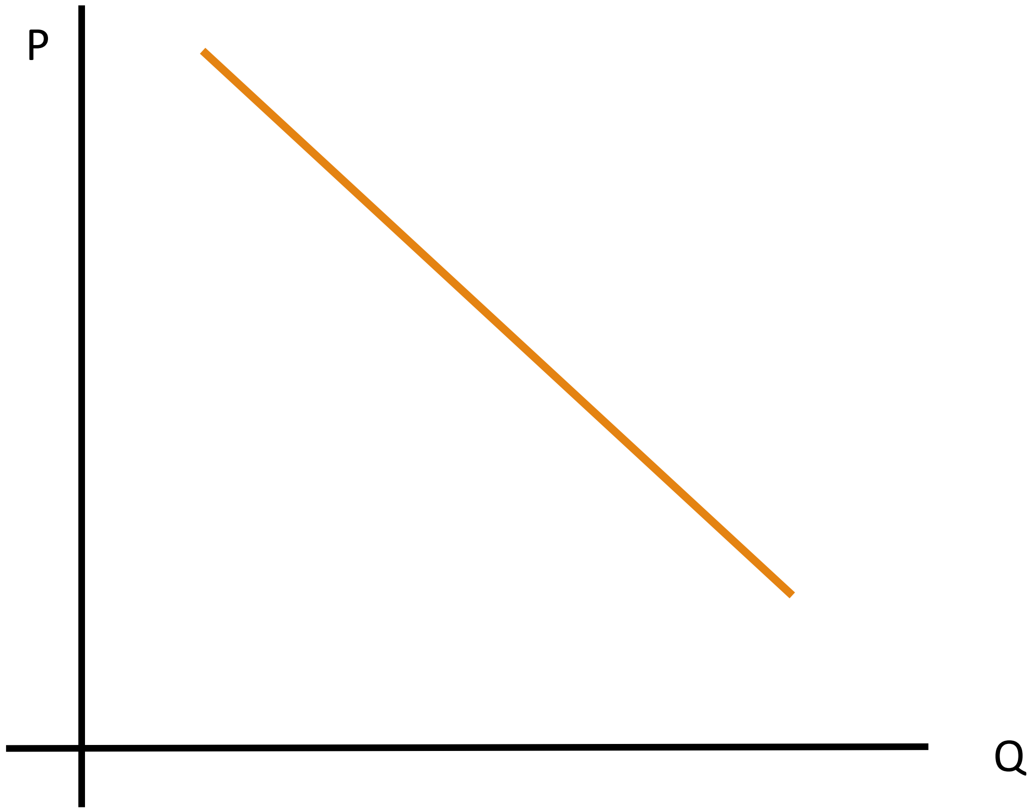
P ↑ Q ↓

P ↓ Q ↑

Economists call this inverse relationship between price and quantity demanded the law of demand.

The law of demand assumes that all other variables that affect demand are held constant.

1. Demand curve



1. Demand curve

Demand curves can somewhat different for each product.

They may appear relatively steep or flat, or they may be straight or curved.

Nearly all demand curves share the fundamental similarity that they slope down from left to right.

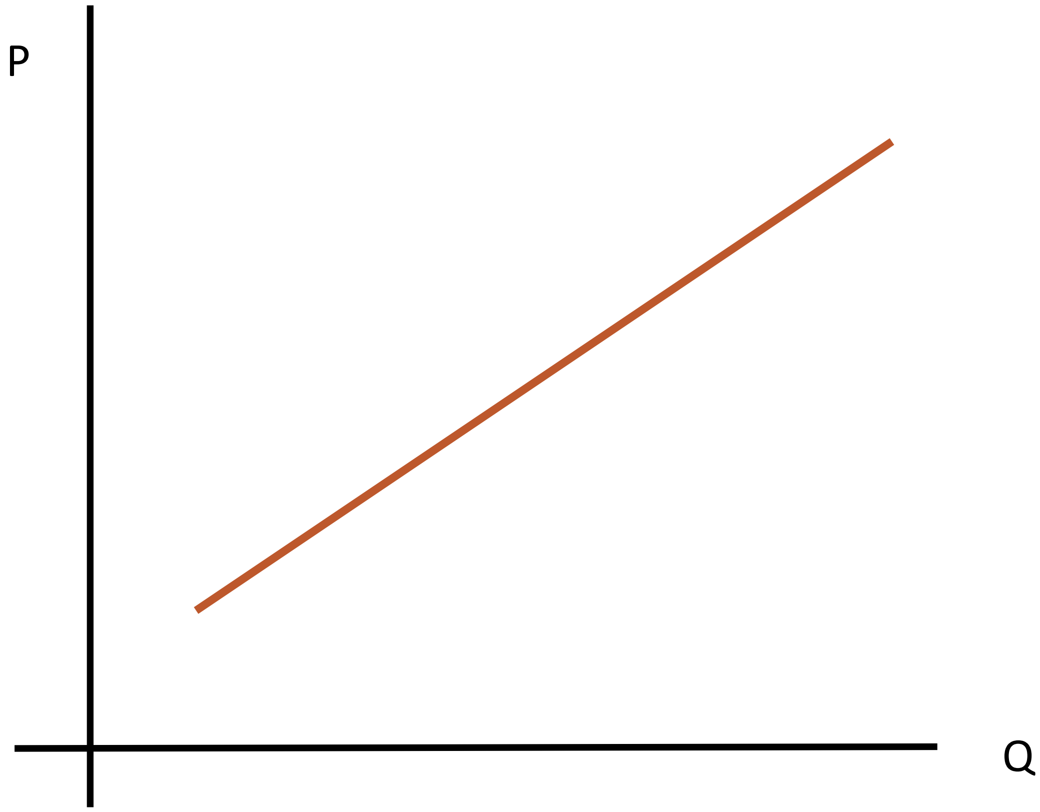
2. Supply curve

Quantity supplied means the amount of some good or service a producer is willing to supply at each price.

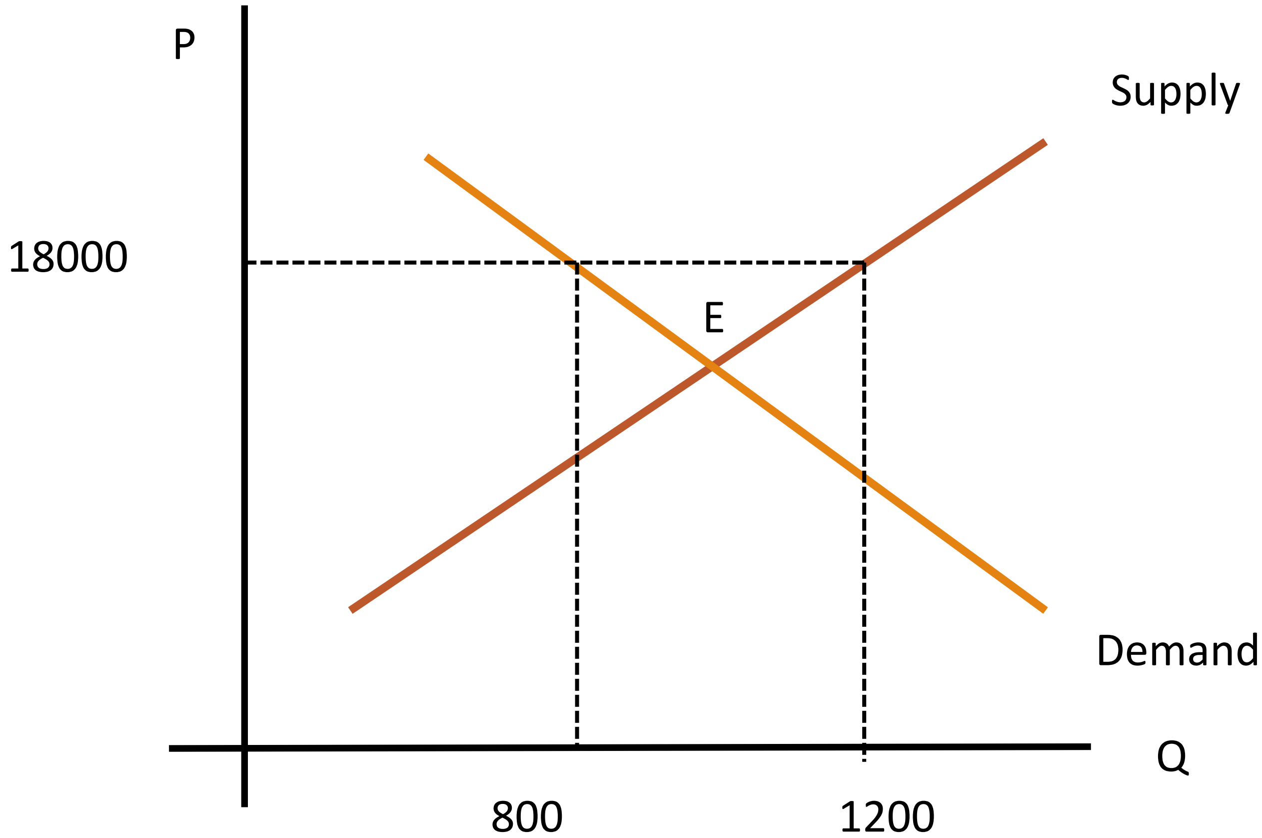
Price is what the producer receives for selling one unit of a good or service.

A rise in price almost always leads to an increase in the quantity supplied of that good or service, while a fall in price will decrease the quantity supplied.

2. Supply curve



3. Disequilibrium – excess supply



3. Disequilibrium – excess supply

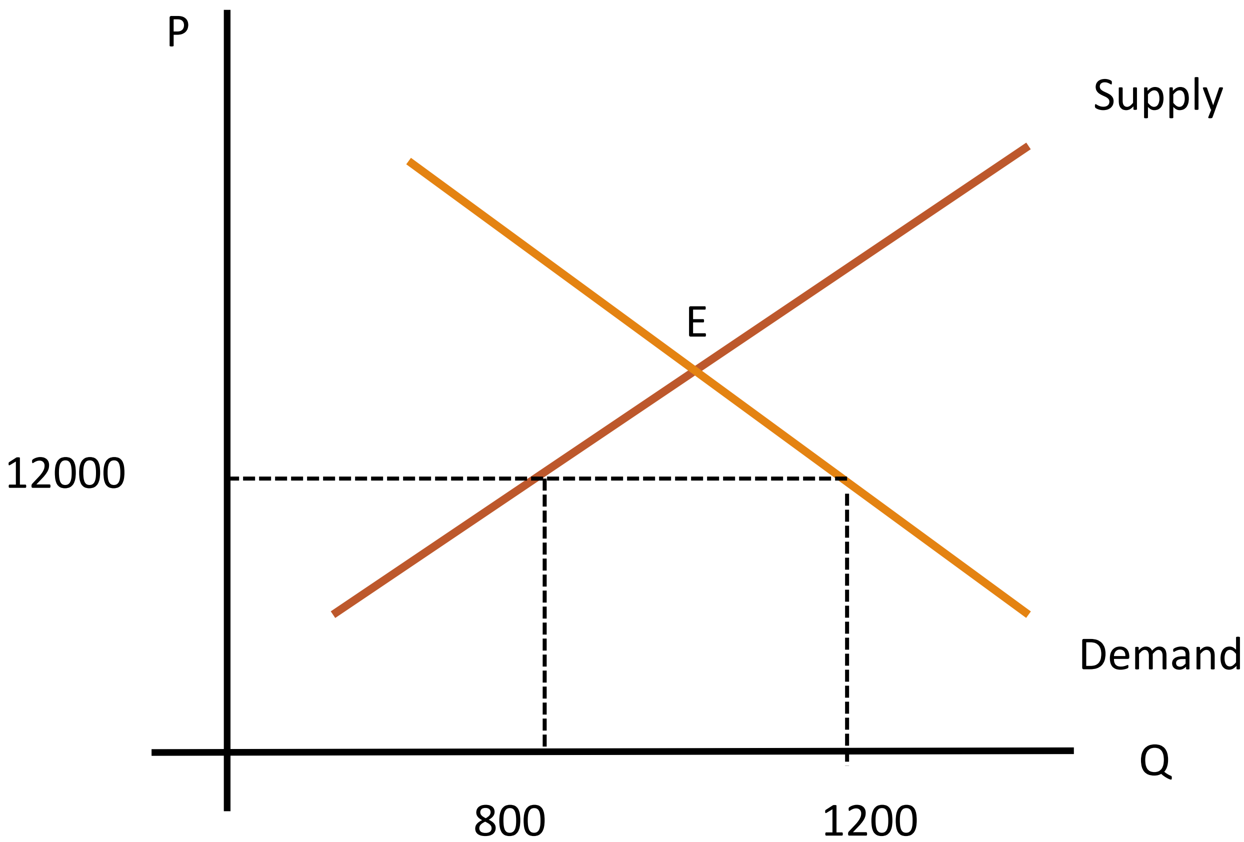
What will be happened in next?

Some chicken houses can not sell their chickens. So, Raw chickens, oils, flours at their storages starts to go bad.

Some chicken houses will want to cut prices, because it is better to sell at a lower price than not to sell at all.

So, if the price is above the equilibrium level, incentives built into the structure of demand and supply pressures for the price to fall toward the equilibrium.

3. Disequilibrium – excess demand



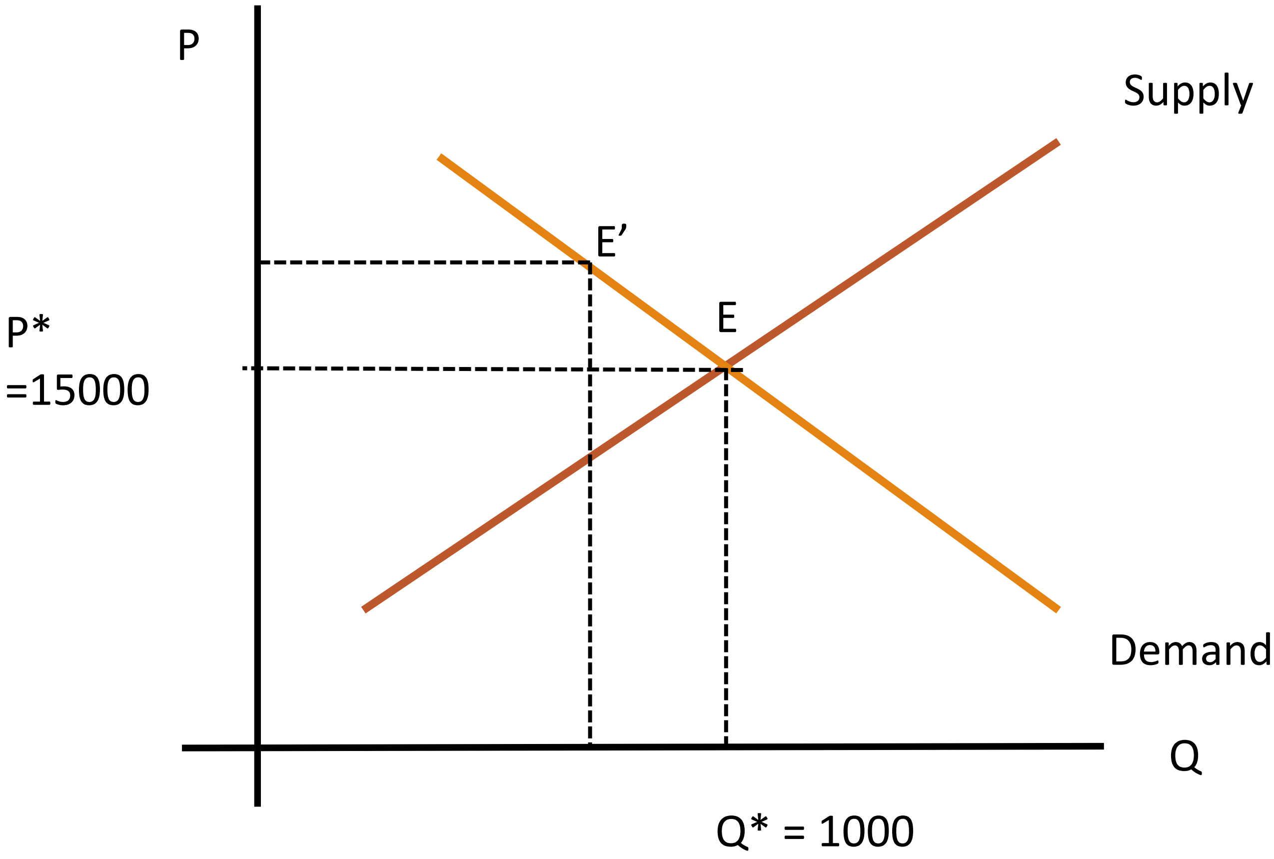
3. Disequilibrium – excess demand

Consumers always are waiting their order and chicken houses says that they are filled with orders and there are no more stock of raw meats.

It's not difficult for chicken houses to realize that even if they raise the price, they can sell their stock out.

So, if the price is below the equilibrium level, incentives built into the structure of demand and supply pressures for the price to rise toward the equilibrium.

4. Equilibrium



4. Equilibrium

The word “equilibrium” means “balance.”

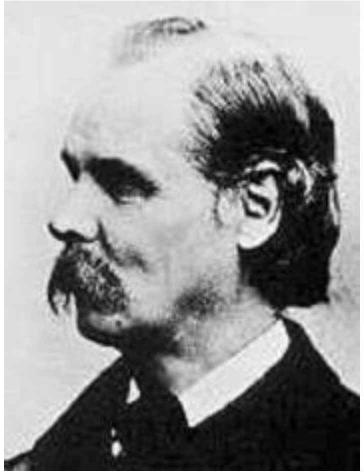
If a market is at its equilibrium price and quantity, then it has no reason to move away from that point.

However, if a market is not at equilibrium, then economic pressures arise to move the market toward the equilibrium price and the equilibrium quantity.

4. Equilibrium

In 1890, the famous economist Alfred Marshall wrote that asking whether supply or demand determined a price was like arguing

"whether it is the upper or the under blade of a pair of scissors that cuts a piece of paper."



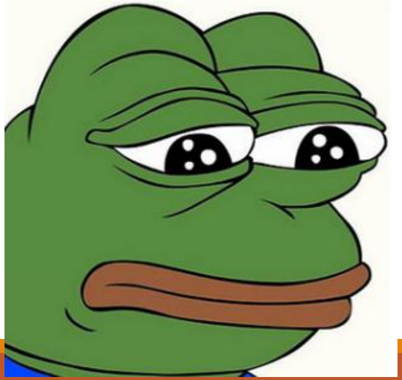
5. Shift of demand curve

Price, however, is not the only thing that influences demand and supply.

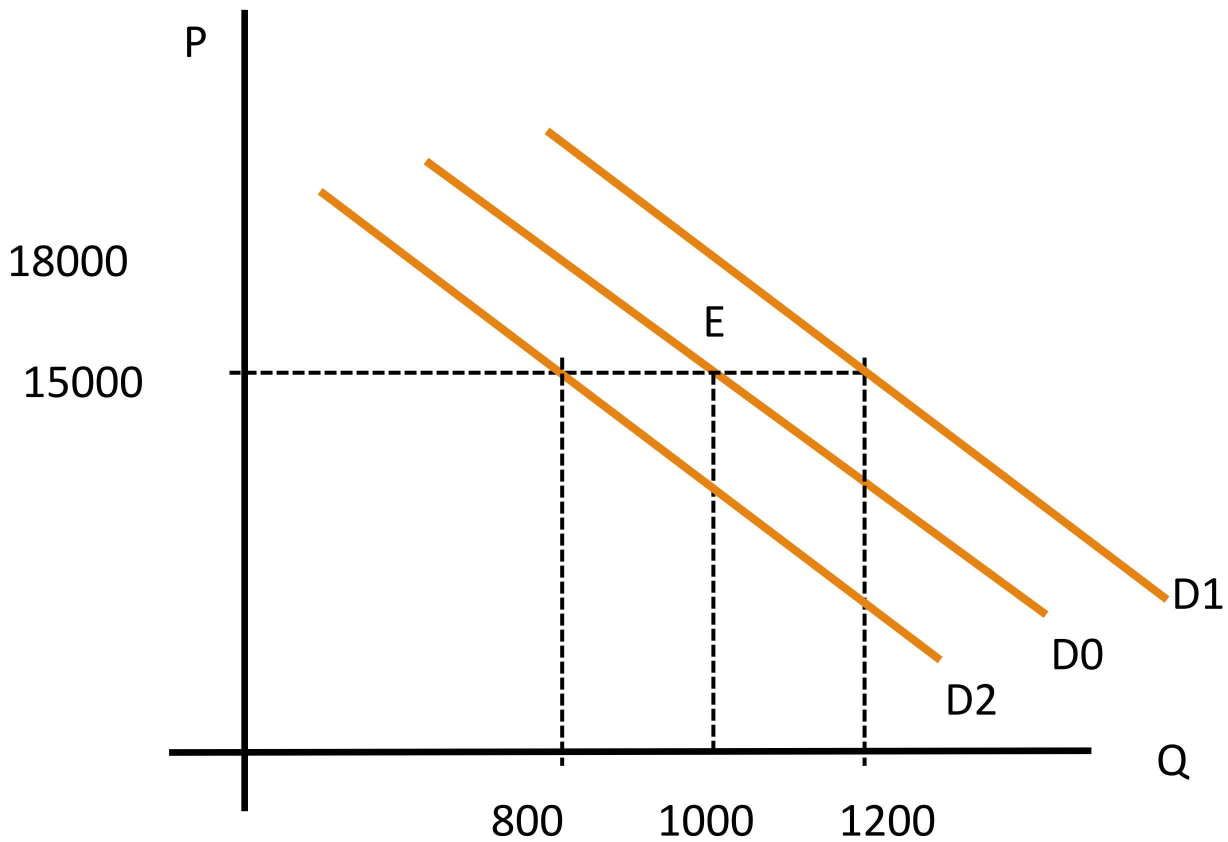
What if overall consumer's income has changed?

Sometime preferences can be suddenly changed.

For example, if avian influenza has occurred, how is demand for chicken affected?



5. Shift of demand curve



5. Shift of demand curve

Does the higher income always bring greater demand?

A product whose demand rises when income rises is called a normal good.

but, there is a few exceptions to this pattern do exist.

A product whose demand falls when income rises is called an inferior good.

5. Shift of demand curve

And, for some goods such as luxury cars, fine cuisines, or jewelry, the effect of a rise in income can be especially pronounced.

We called those luxury goods.

A luxury good is a good for which demand increases more than proportionally as income rises,

5. Shift of demand curve

Of course, income is not the only factor that causes a shift in demand.

We can think about some of other factors that shift demand curves.

One of those is changing tastes or preferences.

For example, if avian influenza has occurred, how is demand for chicken affected?

It might cause a severe avoiding to eat chickens.

5. Shift of demand curve

Demographic changes can also be a important factor.

Actually, the demographic changes is combined with the changes in preference.

Since the consumption preference of youth and old person is quite different, changes in the demographic structure directly affects the overall preference of the society.

5. Shift of demand curve

Another example is the housing demand.

Since the demand for owning houses is usually peaked in the middle age about 40s, the overall housing demand can also be peaked, when the number of middle-aged in the country is the highest level.

Some economists have tried to predict the future housing prices by using predictable demographic changes.

Mankiw, N. G., & Weil, D. N. (1989). The baby boom, the baby bust, and the housing market. Regional science and urban economics, 19(2), 235-258.

5. Shift of demand curve

It is also true that expectations about the future price (or expectations about tastes and preferences, income, and so on) can affect demand.

For example, if people hear that a hurricane is coming, they may rush to the store to buy flashlight batteries and bottled water.

These changes can push the demand curve to the right.

5. Shift of demand curve

One interest thing is that some goods can be seriously affected by the expectation.

For example, we can think about housing market.

Demand for housing is not only determined by preferences, but also by the expectations for capital gain.

This feature of housing markets sometimes causes speculations in housing markets.

6. Shift of supply curve

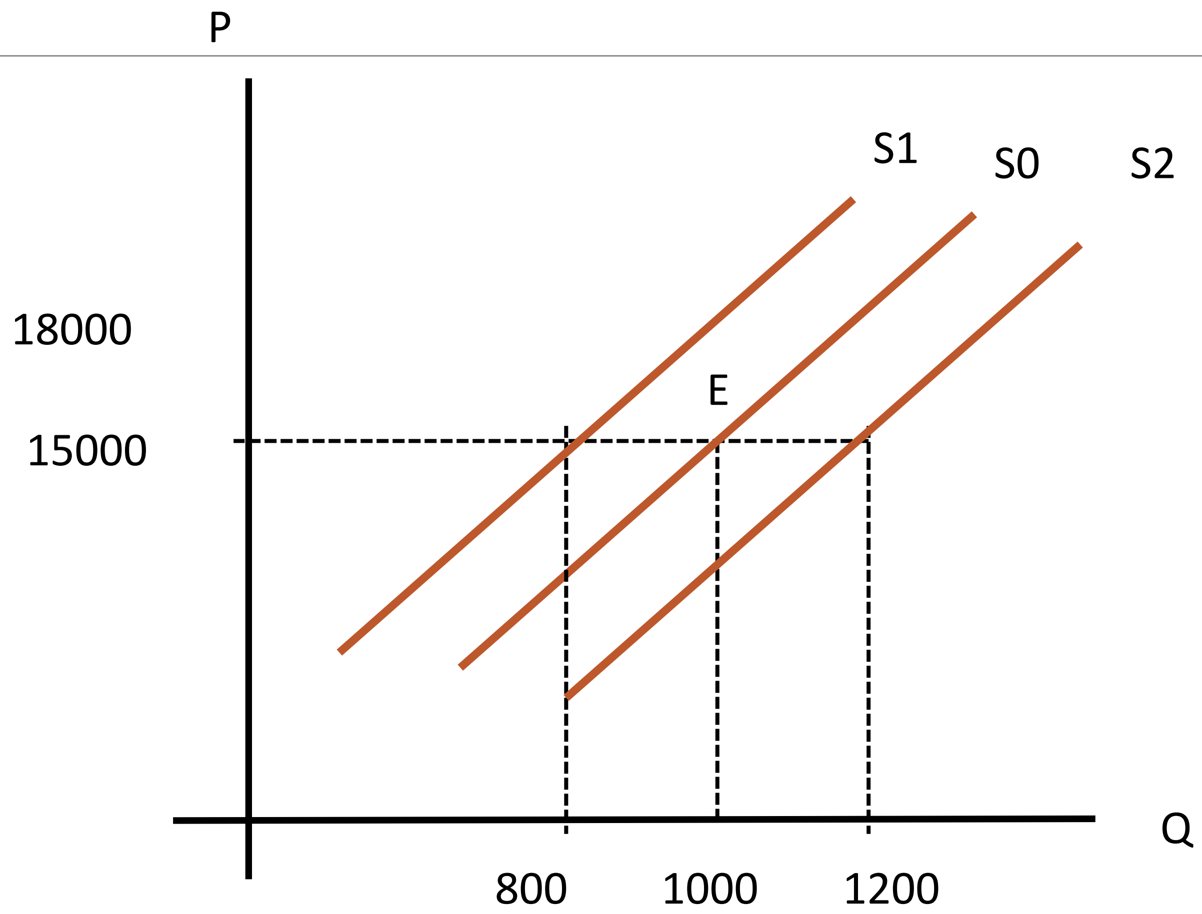
How about the supply curves?

One of most important factor affecting the supply curve might be the production cost.

If a firm faces lower costs of production, a firm’s profits go up. This can be shown by the supply curve shifting to the right.

if a firm faces higher costs of production, then it will earn lower profits at any given selling price for its products. In this case, the supply curve shifts to the left.

6. Shift of supply curve



6. Shift of supply curve

Several other things affect the cost of production, too.

We can think about new technologies for production, and some government policies.

6. Shift of supply curve

When producers develops or discovers a technology that allows the firm to produce at a lower cost, the supply curve will shift to the right, as well.

Think about the cost of raising a chicken in chicken farm and the poultry factory system.

6. Shift of supply curve

Government policies also can affect the cost of production and the supply curve through taxes, regulations, and subsidies.

A subsidy occurs when the government pays a firm directly or reduces the firm’s taxes if the firm carries out certain actions.

From the firm’s perspective, taxes or regulations are an additional cost of production that shifts supply to the left, leading the firm to produce a lower quantity at every given price.

So, government subsidies reduce the cost of production and increase supply at every given price, shifting supply to the right.

7. Price controls

In some cases, discontent over prices turns into public pressure on politicians

[미리보는 오늘]"치킨값 인상 꼼짝 마"…닭고기 가격공시제 시행

치킨 가격 꼼수 인상… BBQ '뭇매'

올리브유 통행세 받고, 높은 가맹점 폐점률도 수면 위로

17.07.26 16:27 | 최종 업데이트 17.07.26 22:11 | 글: 신상호(lkveritas) | 편집: 최유진(youjin0213)

좋아요 135개 +크게 | −작게 | 인쇄 | URL줄이기 | ☆스크랩

좋은기사 원고료주기

[머니S포토] 치킨가격 인상 논란 비비큐, 긴급 기자회견 개최

임한별 기자 | 2017.07.27 15:12

비비큐(BBQ)의 얕은 속셈이 뭇매를 맞고 있다. 오너 기 위해 '통행세'를 받고, 가맹점주를 핑계로 치킨 가격을 인상하려는 움직임이 지속적인 논란이 되고 있다.

7. Price controls

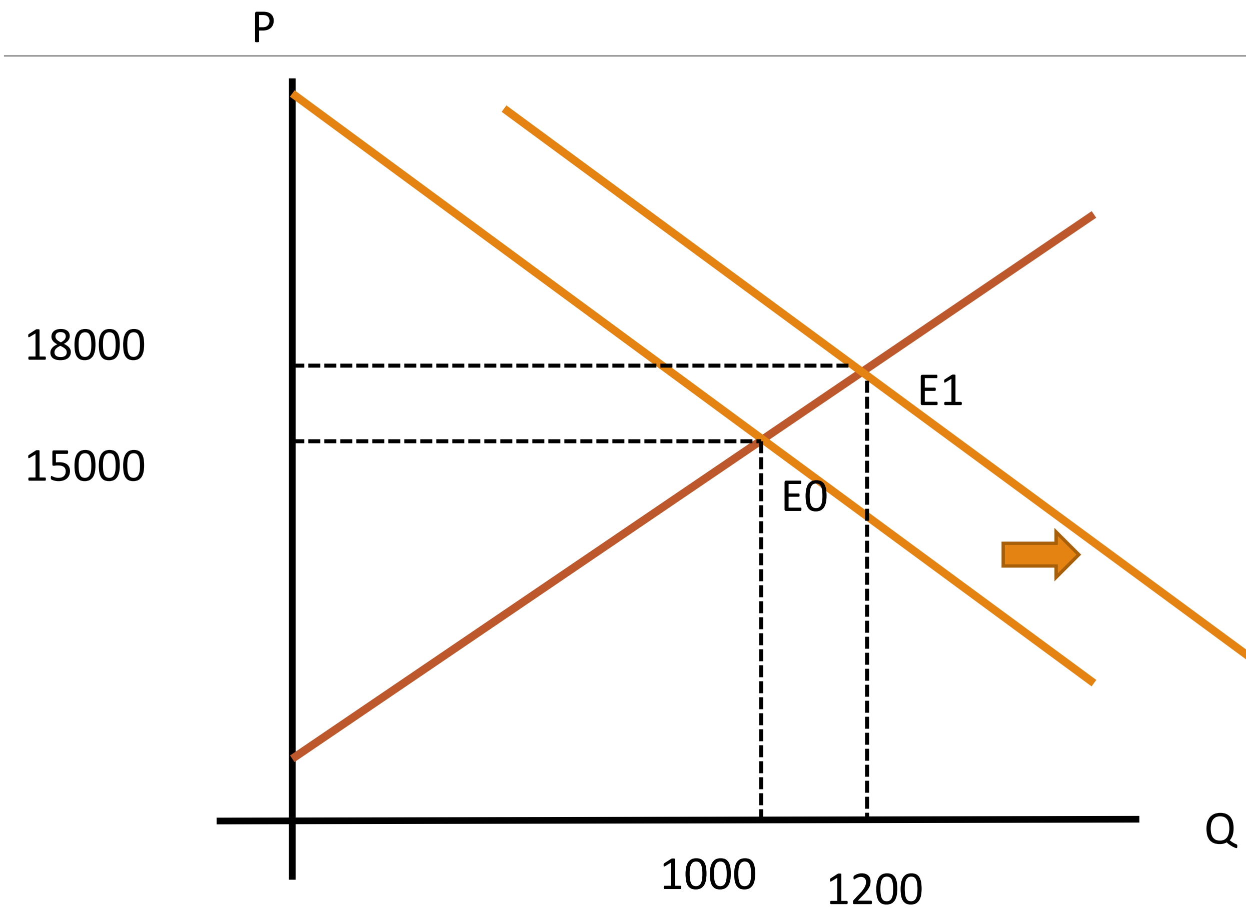
Laws that government enacts to regulate prices are called Price controls.

Price controls come in two ways.

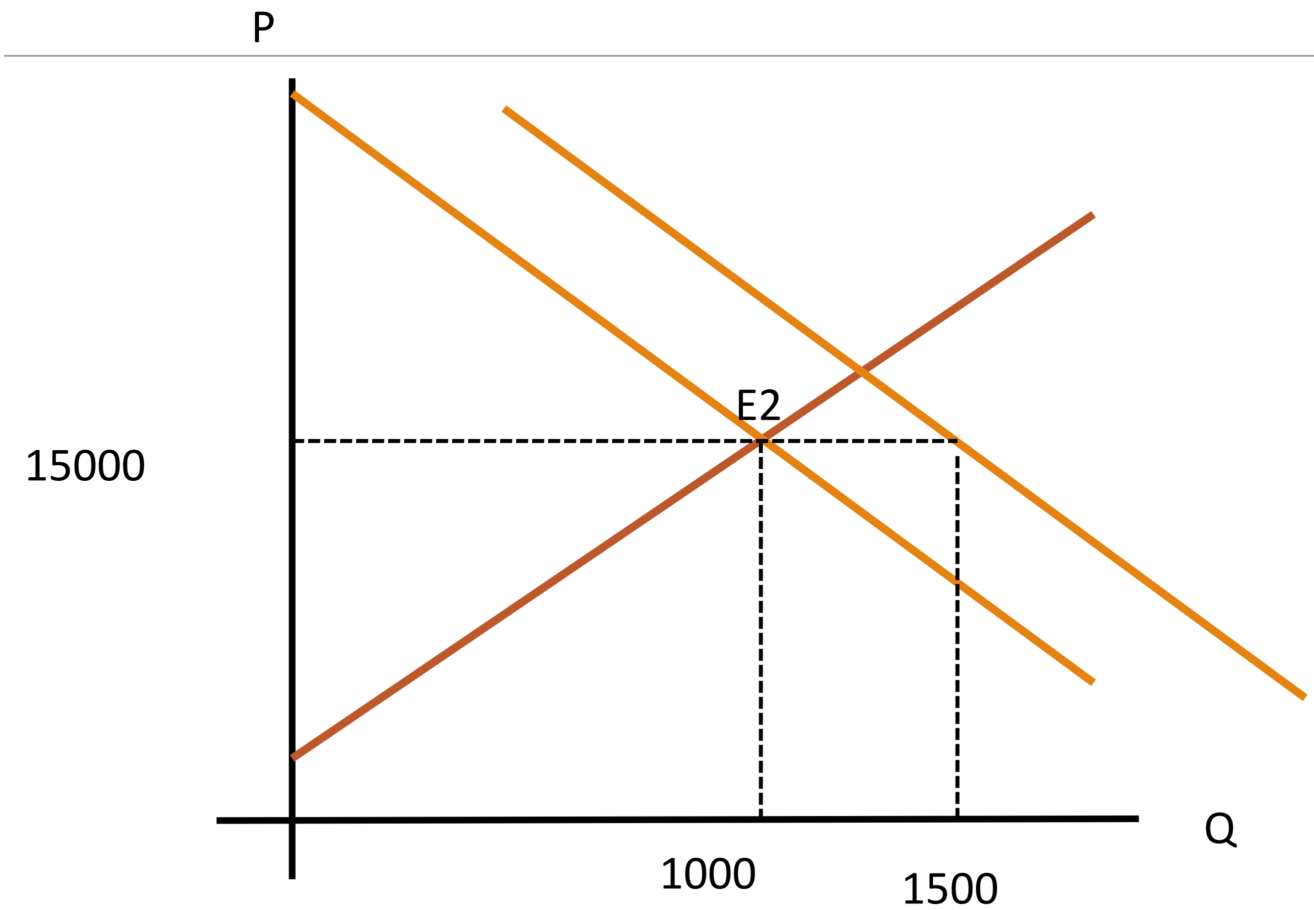
A price ceiling keeps a price from rising above a certain level.

And, a price floor keeps a price from falling below a certain level.

7. Price controls



7. Price controls



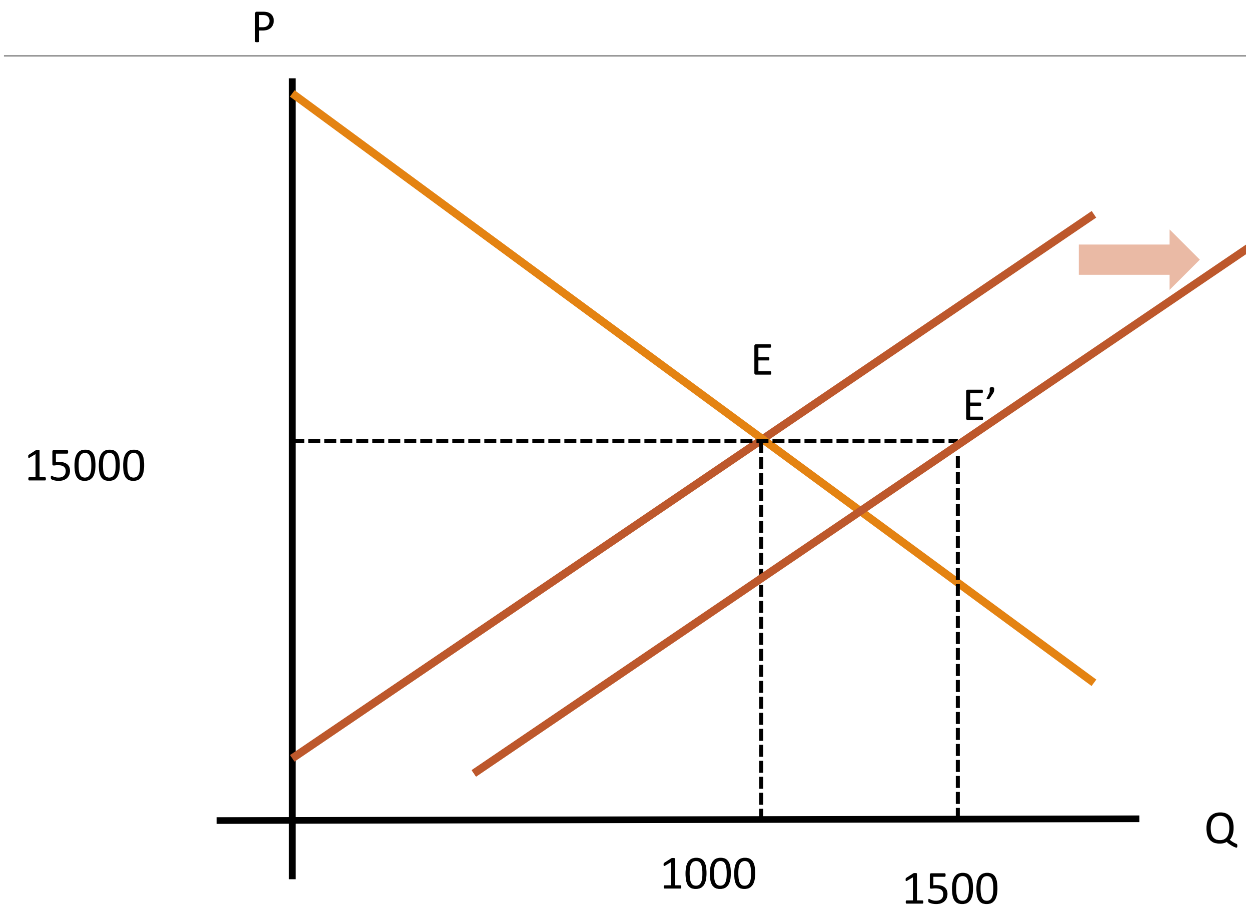
7. Price controls

A price floor is the lowest legal price that can be paid in the market.

Price floors are sometimes called price supports.

Because they support a price by preventing it from falling below a certain level.

7. Price controls



7. Price controls

The demand and supply model shows how people and firms will react to the incentives provided by these laws to control prices.

As a result, It will often lead to undesirable consequences.

It implies alternative policy tools can often achieve the desired goals of price control laws, while avoiding at least some of their costs and tradeoffs.