

Supply & Demand Reference Sheet

Quick reference for personal financial decision-making

LAW OF DEMAND

Definition: When price increases, quantity demanded decreases (and vice versa)

Personal Finance Example: When gas prices rise to \$5/gallon, you drive less and carpool more. When they drop to \$2.50/gallon, you take more road trips.

LAW OF SUPPLY

Definition: When price increases, quantity supplied increases (and vice versa)

Personal Finance Example: When salaries for nurses increase, more people enter nursing programs. When wages fall, fewer people pursue that career.

Demand Shifters

- **Income changes** - More income = more demand (for normal goods)
- **Consumer preferences** - Trends, tastes, advertising
- **Prices of related goods** - Substitutes and complements
- **Future expectations** - Expect prices to rise? Buy now
- **Number of buyers** - Population growth increases demand

Supply Shifters

- **Production costs** - Higher costs = less supply
- **Technology** - Better tech = more efficient supply
- **Natural disasters** - Disruptions reduce supply
- **Government policies** - Taxes, regulations, subsidies
- **Number of sellers** - More competition = more supply

EQUILIBRIUM

Definition: The price where quantity demanded equals quantity supplied

Key Insight: Markets naturally move toward equilibrium. Understanding this helps you predict when prices might be temporary vs. long-term.

Example: A housing shortage pushes prices above equilibrium – expect higher rent until more apartments are built.

MARKET PREDICTION GUIDE

If Demand...	And Supply...	Then Price...	And Quantity...
Increases	Stable	Rises	Rises
Decreases	Stable	Falls	Falls
Stable	Increases	Falls	Rises
Stable	Decreases	Rises	Falls
Increases	Decreases	Rises strongly	Uncertain
Decreases	Increases	Falls strongly	Uncertain

PRICE ELASTICITY

How sensitive is quantity demanded to price changes?

Elastic (Sensitive)

- Luxury goods
- Many substitutes
- Non-essentials

Strategy: Wait for sales, negotiate, find alternatives

Inelastic (Insensitive)

- Necessities
- Few substitutes
- Urgent needs

Strategy: Reduce consumption, find long-term alternatives

PERSONAL FINANCE APPLICATIONS

Housing: High demand + limited supply = rising rents. Time your apartment search during off-peak seasons (winter) when demand is lower.

Careers: High demand for skills + low supply of workers = higher salaries. Choose careers where demand exceeds supply.

Shopping: Buy seasonal items off-season when demand is low (winter coats in spring, ACs in fall).

Negotiation: You have more leverage when supply is high and demand is low. Less leverage when you have inelastic demand for something.

Investing: Identify markets where supply/demand imbalances create opportunities (e.g., housing in growing cities).

Key Takeaway: Supply and demand determine prices in free markets. Use this knowledge to time purchases, choose careers, negotiate effectively, and make smarter financial decisions. Buy when supply is high and demand is low; sell when demand is high and supply is low.