

## CH 2- Supply and Demand

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### Info – Definition

**Demand:** want, but you have the money & will 100% spend the money if someone offers to sell at that price you demand

- What affects demand?
  - Price of the good  $P$
  - Price of other goods  $P_o$
  - Information: (i.e. monetary policies)  $I$
  - Purchasing power of consumers  $M$
  - Government policy  $G$

The equation of  $q_d$ , quantity demanded:

$$q_d = -P + P_o + I + M - G$$

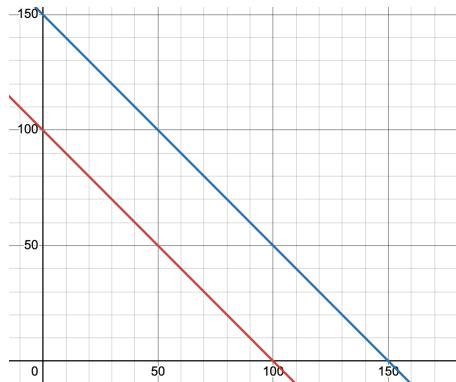
Graphical representation:

where  $q_d$  is on the  $x$ -axis and  $P$  on  $y$ -axis

If another variable changed and we can obtain the new change in  $q_d$ , results in a shift of the curve to left or right.

Changes however on  $P$  will be along the curve.

(i.e.  $q_d = 100 - P$ )



**⚠ Warning** – While solving for the slope, the traditional method of slope mathematically is reciprocal of the graphical representation of the economic model

### Info – Supply

Supply is a measure of how much a market will produce with certainty at any price.

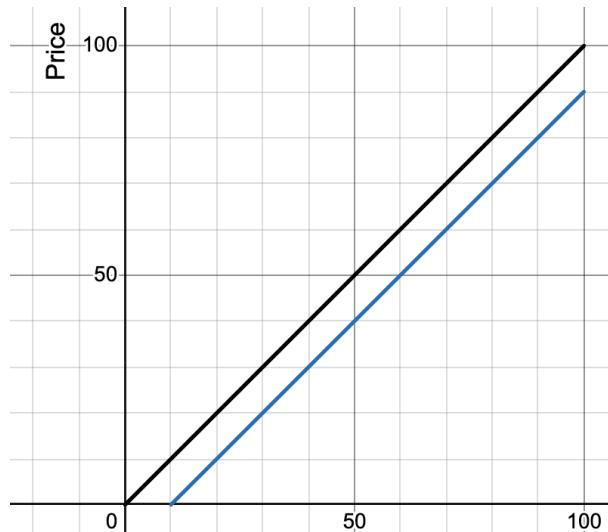
- What affects supply?
  - Price  $P$
  - Price of other goods  $P_o$ 
    - Input materials
    - Other things could have instead produced
  - Government Intervention  $G$

Equation

$$q_s = P - P_o + G$$

where  $q_s$  is the quantity supplied.

(i.e.  $q_s = P$ )



A positive in government intervention shifts the graph to the right whereas to the left

### Tip – Elasticity

The slope of each curve is given by the coefficient in front of  $P$  and it tells us the elasticity of demand → sensitivity to price.

### Info – The Law of Demand

All else constant, an increase in price causes a decrease in demand

→ coefficient of price in the  $q_d$  function will always be negative

→ demand curve will always be downward sloping

### Info – The Law of Supply

All else constant, an increase in price causes an increase in supply

→ coefficient of price in the  $q_s$  function will always positive

→ supply curve will always be upward sloping

