

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:

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

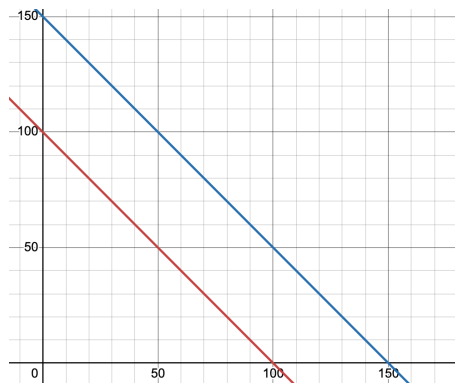
Graphical representation:

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.

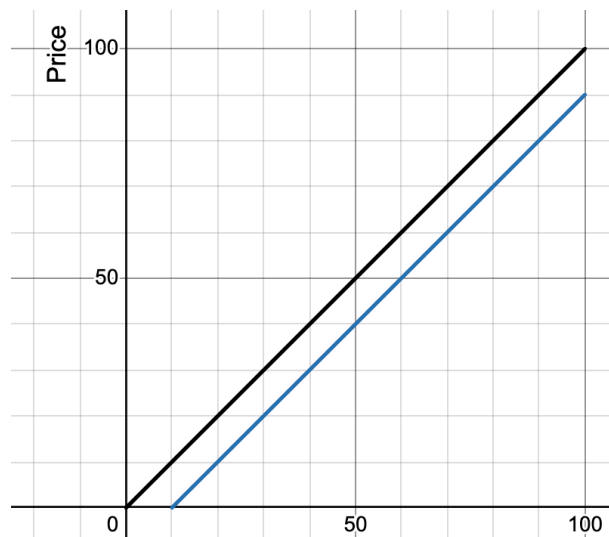
- What affects supply?
 - Price P
 - Price of other goods P_o
 - Input materials
 - Other things could have instead produced
 - Government Intervention G

Equation

$$q_s = P - P_o + G$$

where q_s is the quantity supply.

(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 be positive

→ supply curve will always be upward sloping

