Topic - 2
Supply & Demand
Mid Term hand Note

Supply & Demand
- → are two words that economists use most often
- → are the forces that make market economics work.

(*) Modern microeconomics is about supply, demand & market equilibrium.

A market is a group of buyers and sellers of a particular good & service

- Buyers determine demand
- Sellers determine Supply.

Demand
→ Quantity demanded refers to the amount (quantity) of a good that buyers are willing to purchase at alternative prices for a given period

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Determinants of Demand:

1) Product's own price
2) Consumer Income
3) Price of Related goods
4) taste
5) Expectations
6) Number of Consumer.

1. **Price**: The law of demand states that, other things equal, the quantity demanded of a good falls when the price of the good rises.

2. **Income**:

As income increases the demand for a normal good will increase

As income increases the demand for an inferior good will decrease.

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3) Price Related Goods:

- When a fall in the price of one good reduces the demand for another good, the two goods are called $\boxed{\text{Substitute}}$.

- When a fall in the price of one good increases the demand for another good, the two goods are called Compliments.

The demand schedule & the demand curve:

* The demand schedule is a table that shows the relationship between the price of the good and the quantity demanded.

* The demand curve is a graph of the relationship between the price of a good and the quantity demanded.

$\boxed{\text{Other thing beign equal.}}$

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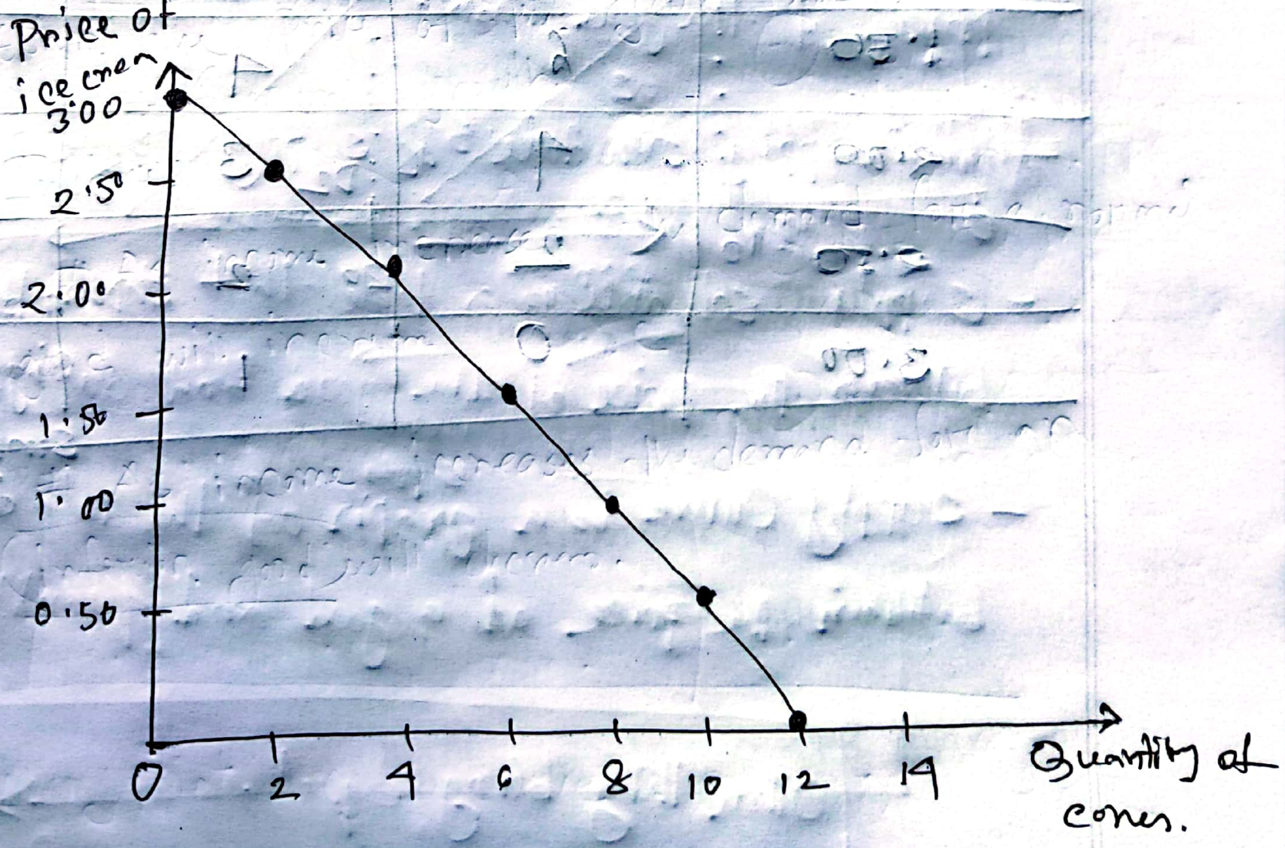
Price of Ice cream Cone (₹)	Quantity of cones Demanded
0·00	12
0·50	10
1·00	8
1·50	6
2·00	4
2·50	2
3·00	0

Demand Curve :



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Market Demand Schedule :

(*) Market demand is the sum of all individual demand at each possible price

→ Curve

Price of ice cream Cone ($)	Catherine	Nicholas	Market
0.00	12	7	19
0.50	10	6	16
1.00	8	5	13
1.50	6	4	10
2.00	4	3	7
2.50	2	2	4
3.00	0	1	1

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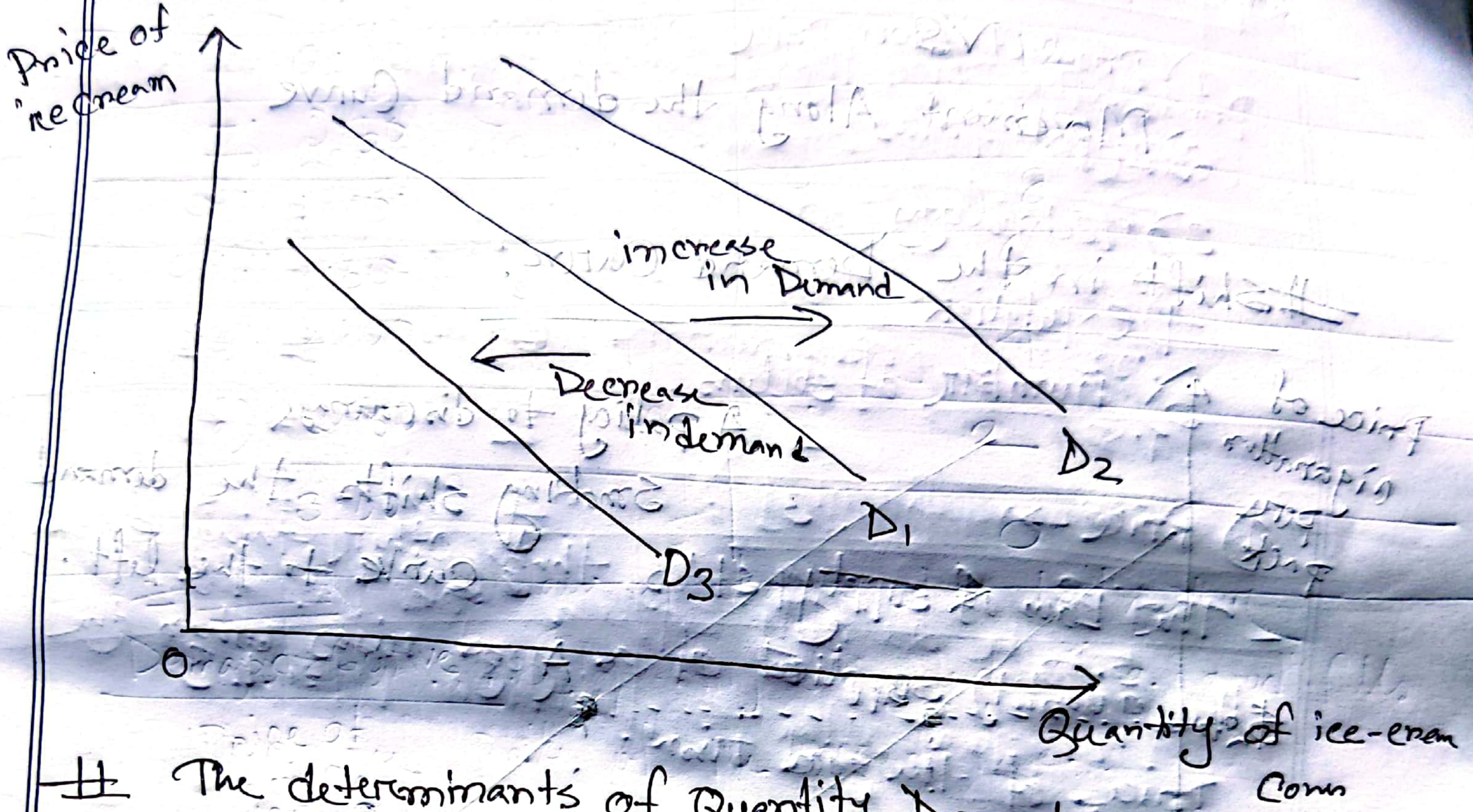
Shift in the Demand Curve :



The determinants of Quantity Demand :

Price → represents a movement along demand curve

Income → Shifts the demand curve

Prices of related goods → Shifts the demand curve

Tastes → Shifts in the demand curve

Expection → shifts in the demand curve

Number of Buyers → Shifts in the demand curve.

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Shifts in the demand curve

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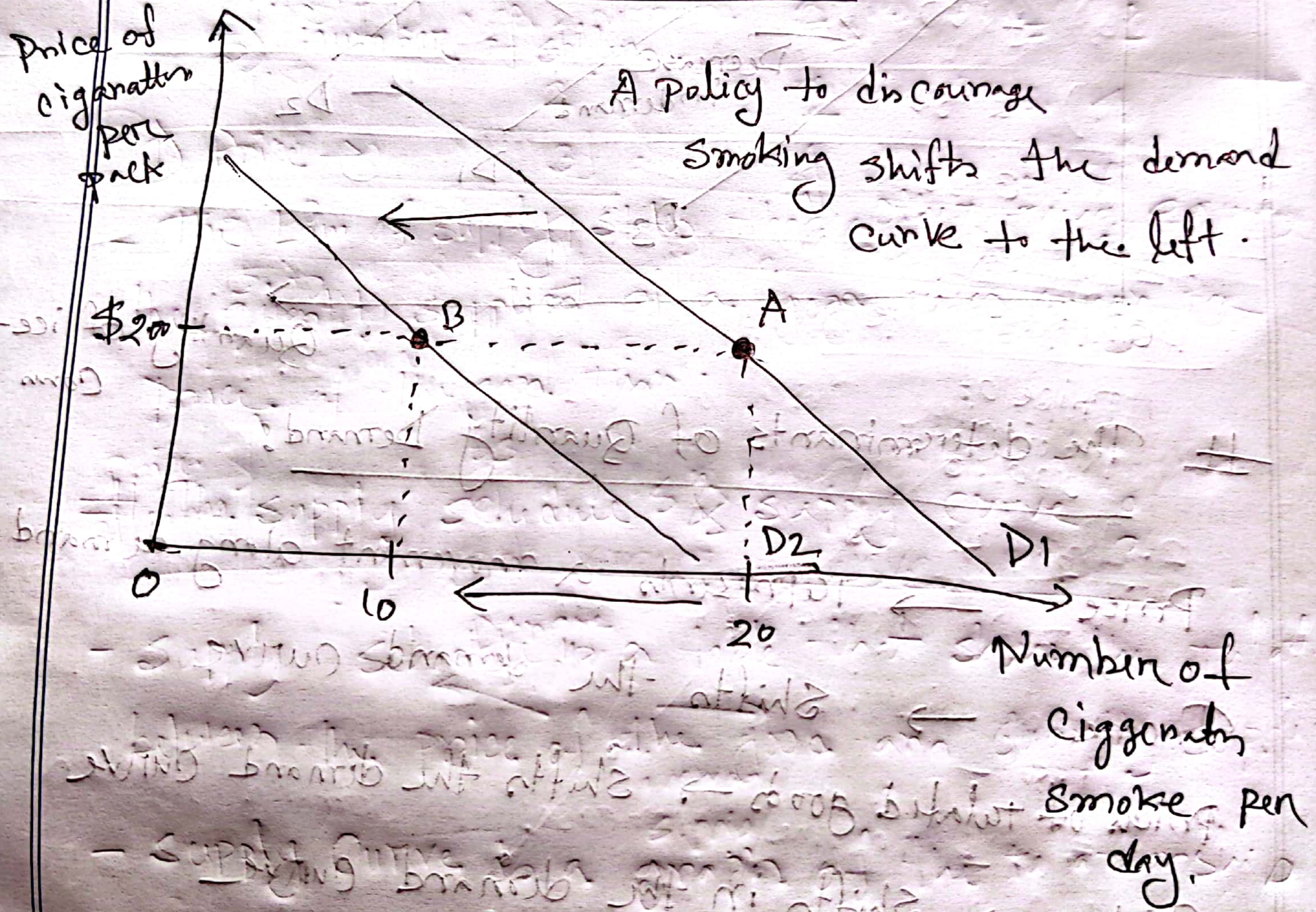
Movement Along the demand Curve

Shift in the Demand Curve:



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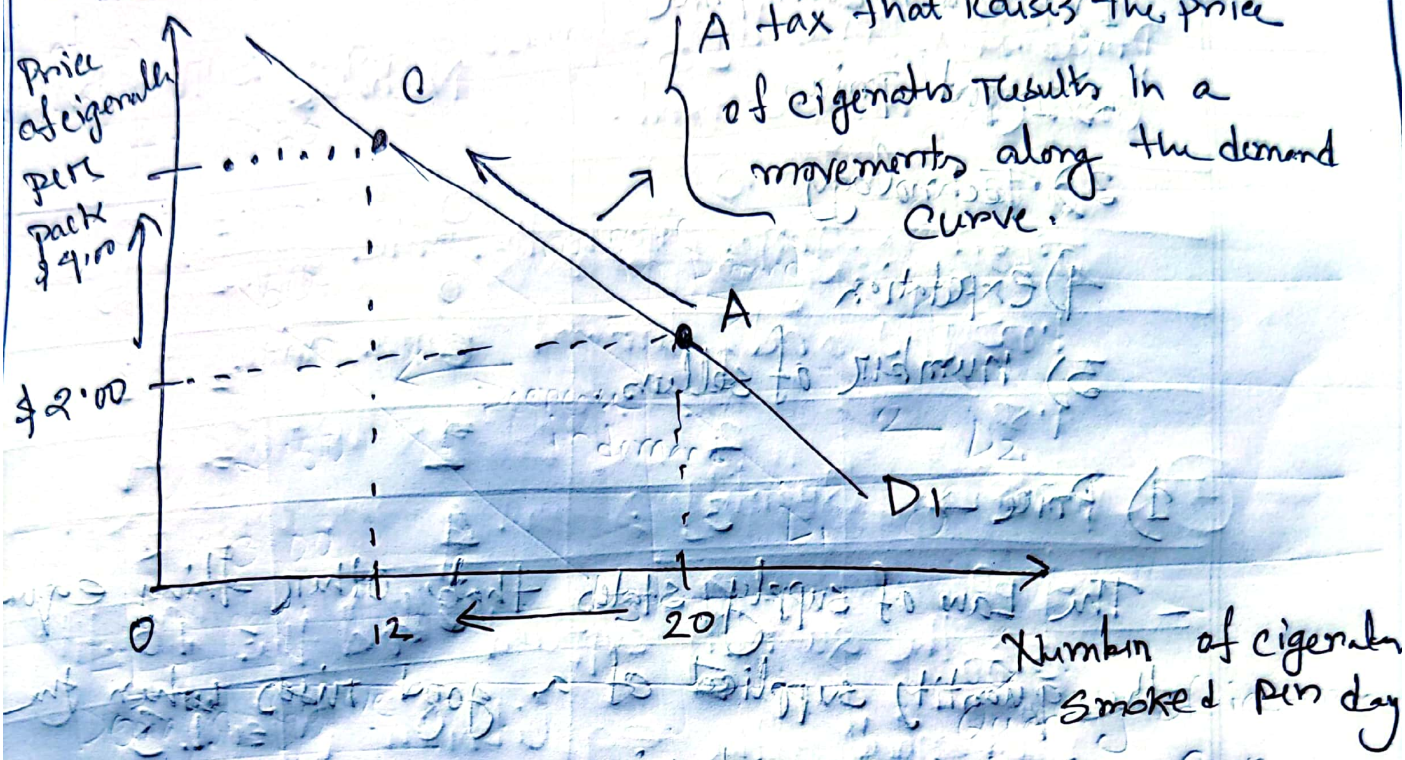
Movement Along the Demand:



A tax that raises the price of cigerates results in a movements along the demand curve.

Supply

→ Quantity supply refers to the amount (quantity) of a good that sellers are willing to make available for sale at alternative prices for a given period.

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Determinants of supply:

1) Product own Price
2) Input prices
3) Technology
4) expectation
5) number of sellers.

1) Price →

- The Law of supply states that, other thing equal, the quantity supplied of a good rises when the price of the good rises.

The supply schedule & supply curve:

- Supply schedule is a table that shows the relationship between the price of the good and quantity supplied
- supply curve is a graph of the relationship between the price of a good and quantity supplied

$\boxed{\text{Other thing being equal.}}$

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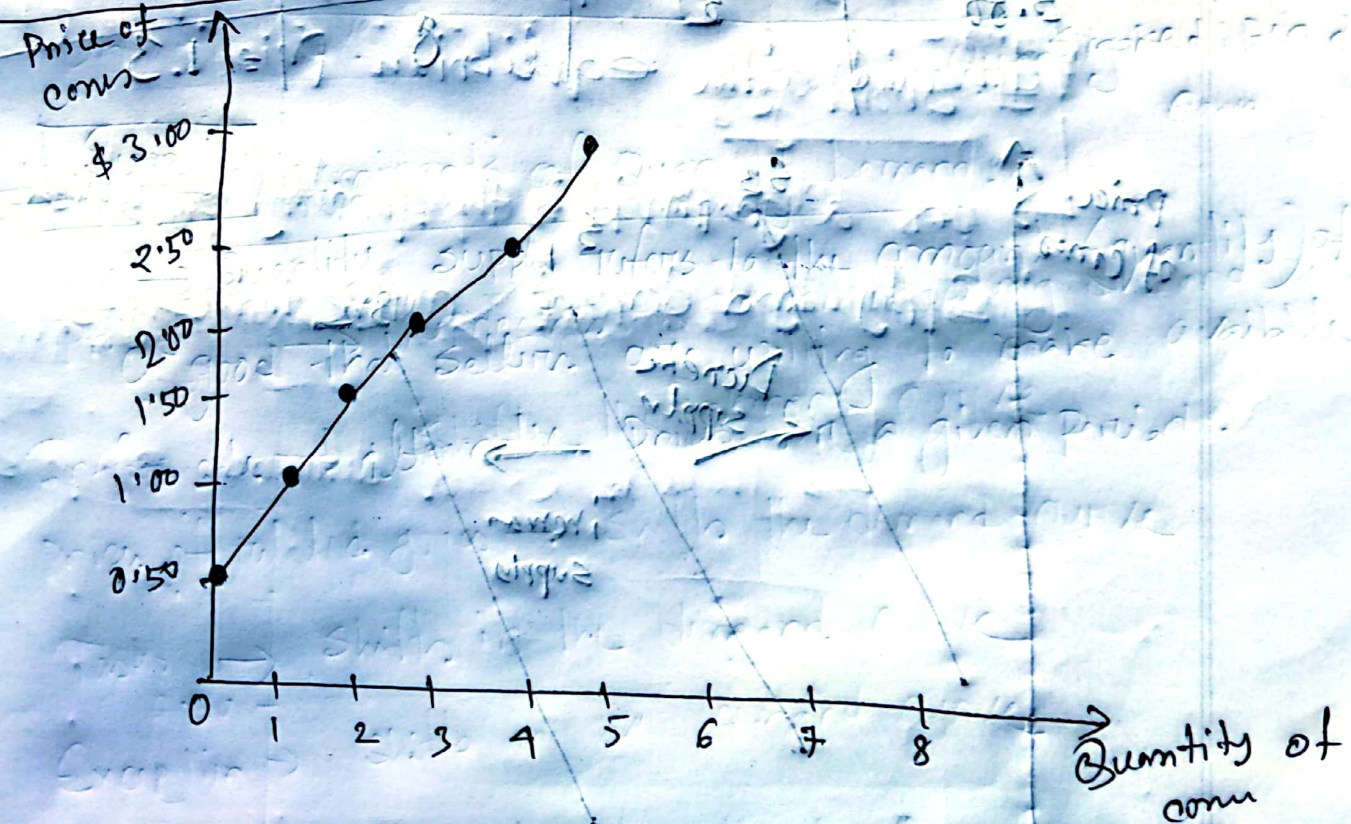
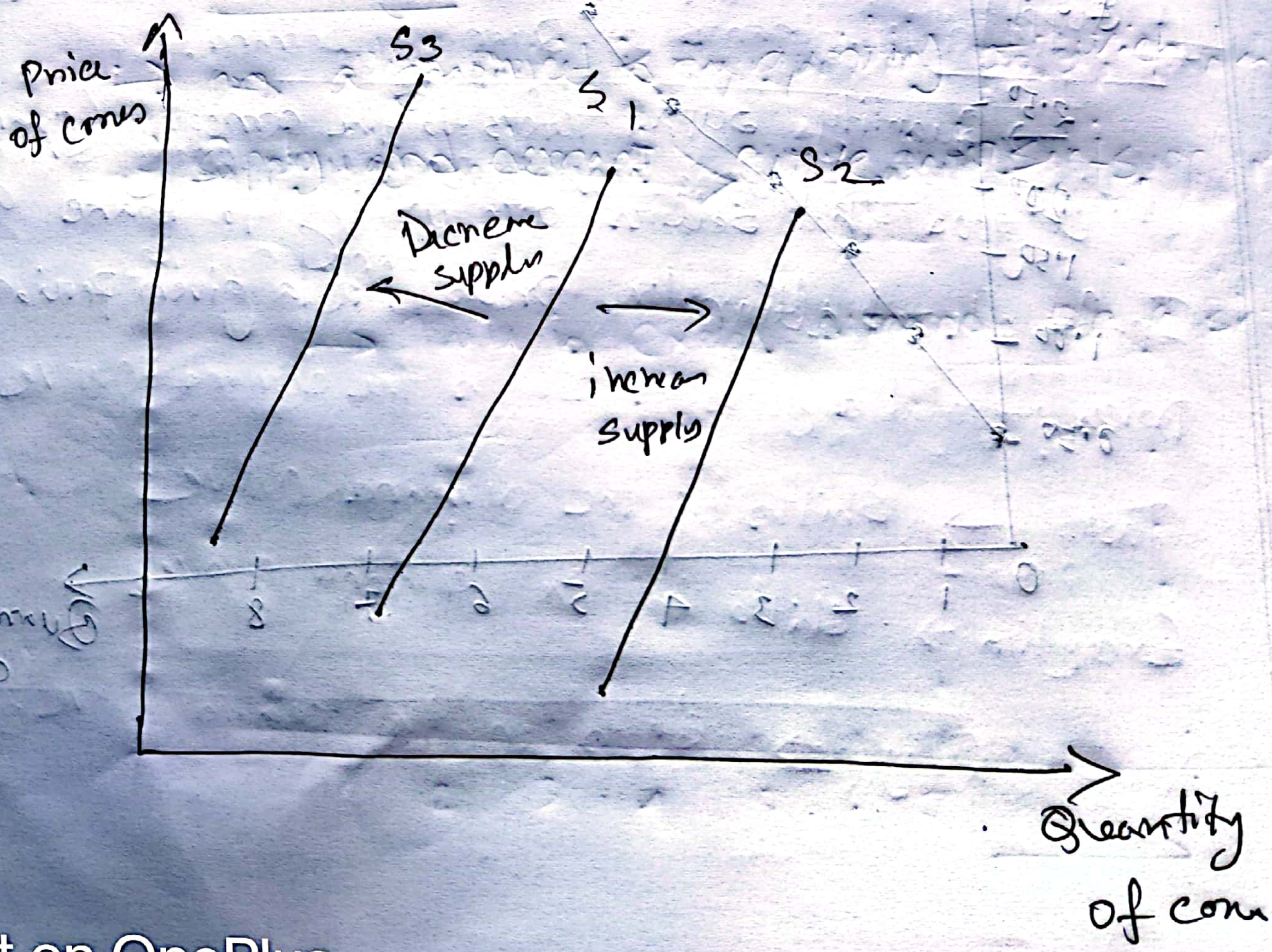
Price of ice cream Cone ($)	Quantity of cones supplied
0'00	0
0'50	0
1'00	1
1'50	2
2'00	3
2'50	4
3'00	5



Market supply as the sum of Individual Supplies:

Price of Cones ($)	Ben	Nicholas	Market
0'00	0	0	= 0
0'50	0	0	= 0
1'00	1	0	= 1
1'50	2	2	= 4
2'00	3	4	= 7
2'50	4	~~8~~ 6	= 10
3'00	5	8	= 13



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The Determinants of Quantity Supplied.

Price → Represents a movement along the supply curve

Input price → Shifts the supply curve

Technology → Shifts the supply curve

Expectations → Shifts the supply curve

Numbers of sellers → Shifts the supply curve.

Equlibrium:

↳ refers to a situation in which the price has reached at the level where the Quantity supply equ[illegible] Quantity demanded.

→ Equlibrium means balance. Demand & supply are always equal.

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Equlibrium Price :

→ The price that balances quantity supplied and quantity demand.

→ on a graph, it is the prie at which the supply and demand curves intersect.

Equlibrium Quantity :

→ The quantity supplied and the quantity demanded at the equlibrium price.

→ on a graph it is the quantity at which the supply and demand curve intersect.

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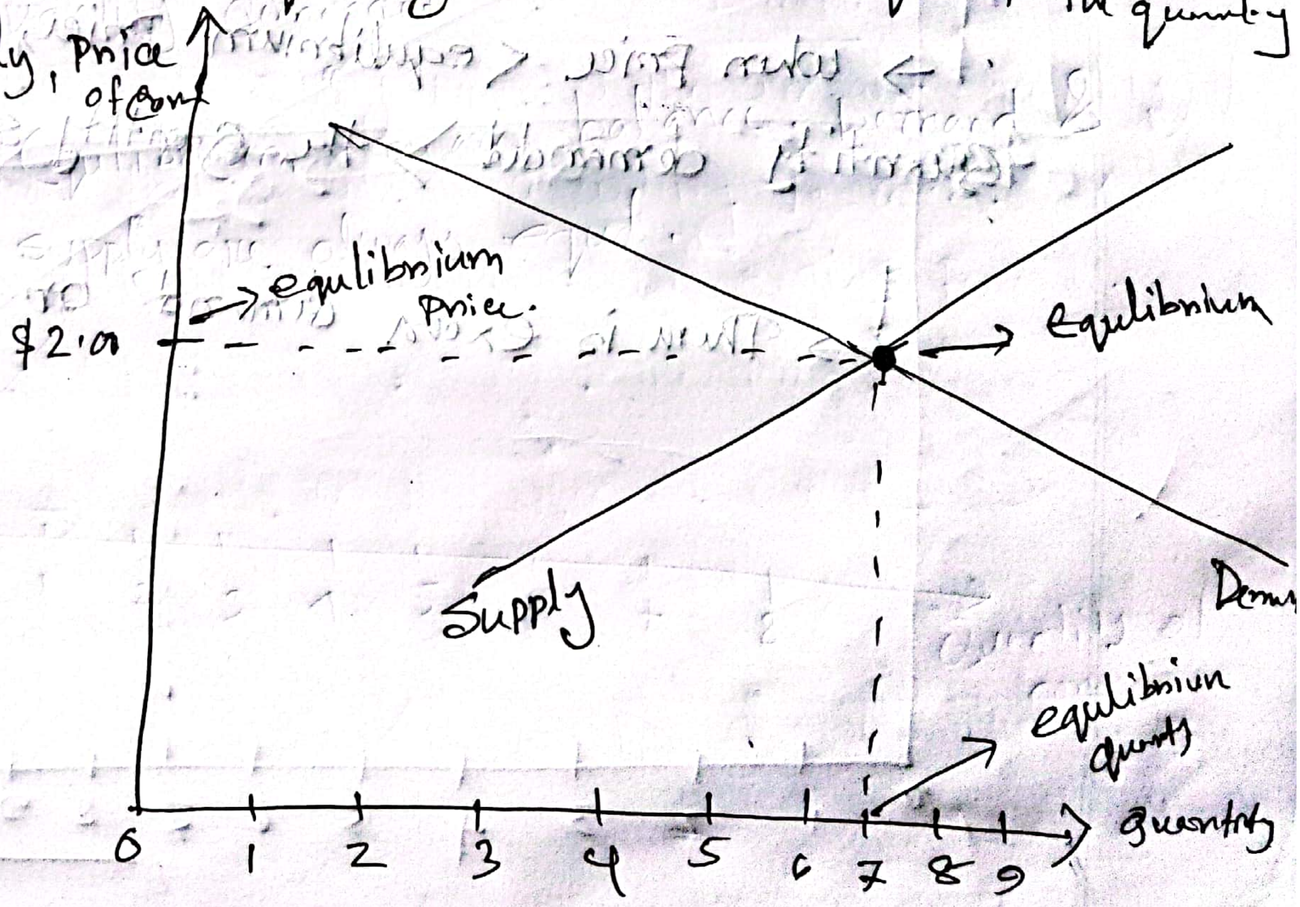
Demand schedule		Supply schedule	
Price of Icecream	Market	Price of Icecream	Market
$0.00	19	$0.00	0
0.50	16	0.50	0
1.00	13	1.00	1
1.50	10	1.50	4
2.00	7	2.00	7
2.50	4	2.50	10
3.00	1	3.00	13

→ At $2.00 the quantity demanded is equal to the quantity supply.



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Equilibrium :

Surplus :

→ When Price > equilibrium price, then the Quantity Supplied > quantity demanded.

⇒ There is excess supply or a surplus

⇒ suppliers will lower the price to increase sales, thereby moving toward equilibrium

Shortage :

→ When price < equilibrium price, then the Quantity demanded > the quantity supplied.

↳ There is excess demand or a shortage.

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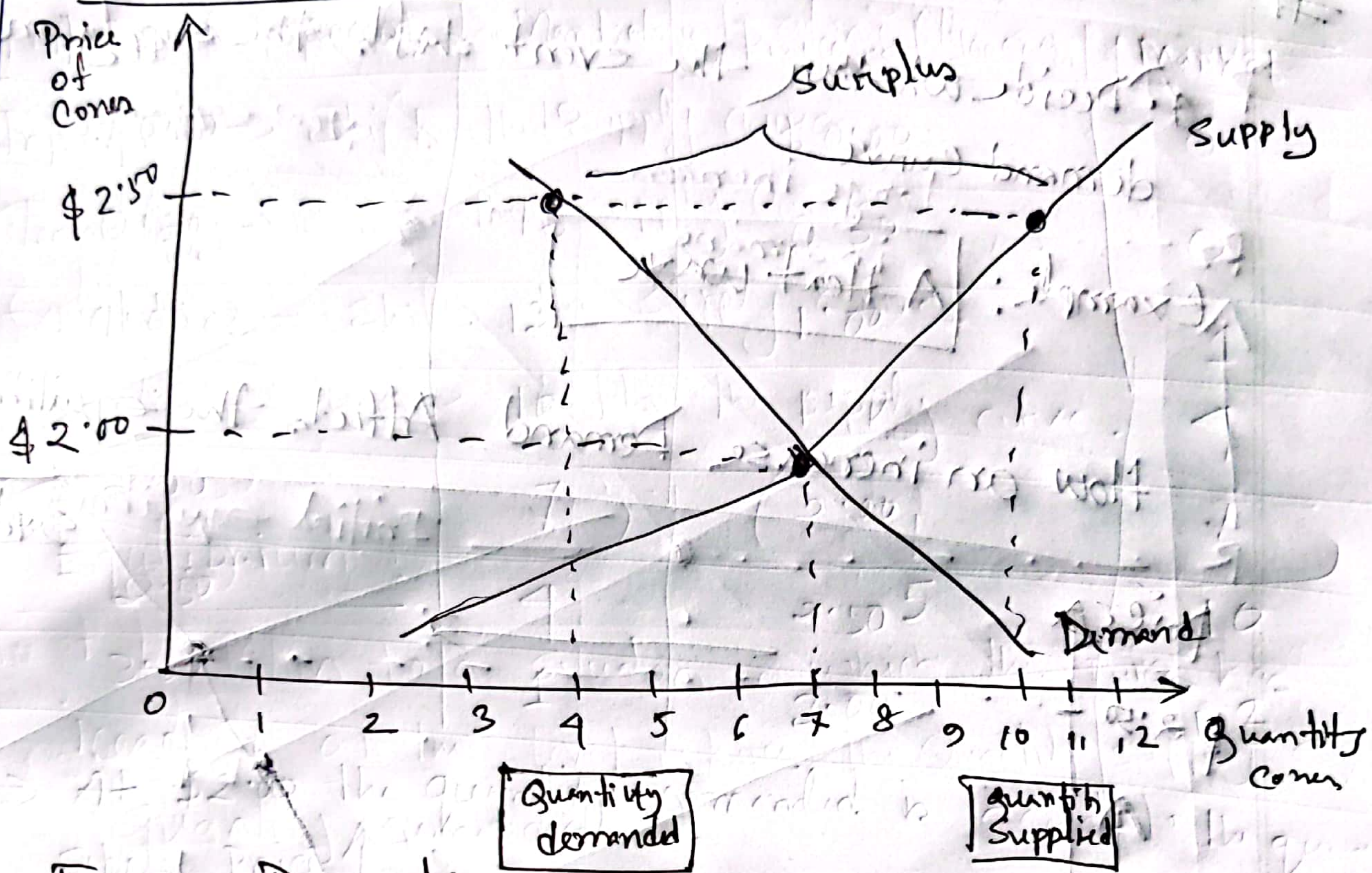
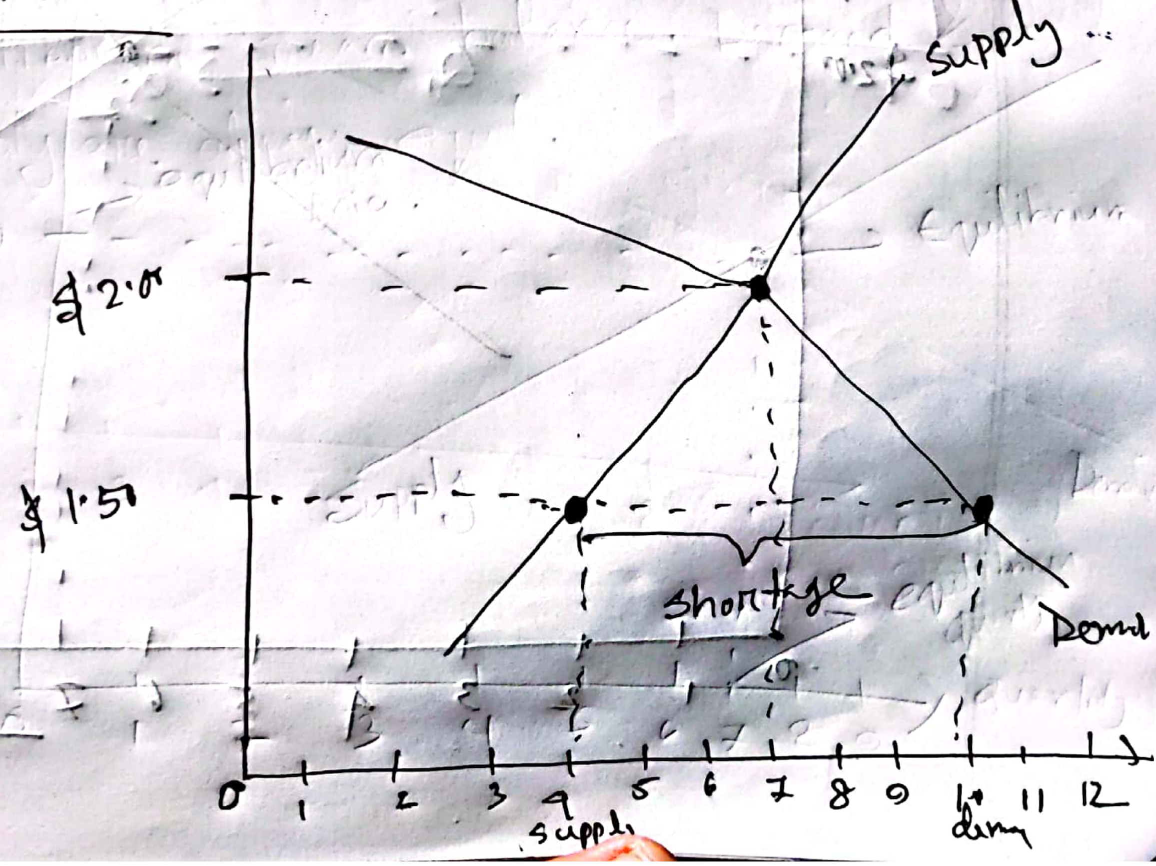
Excess Supply :



Excess Demand :



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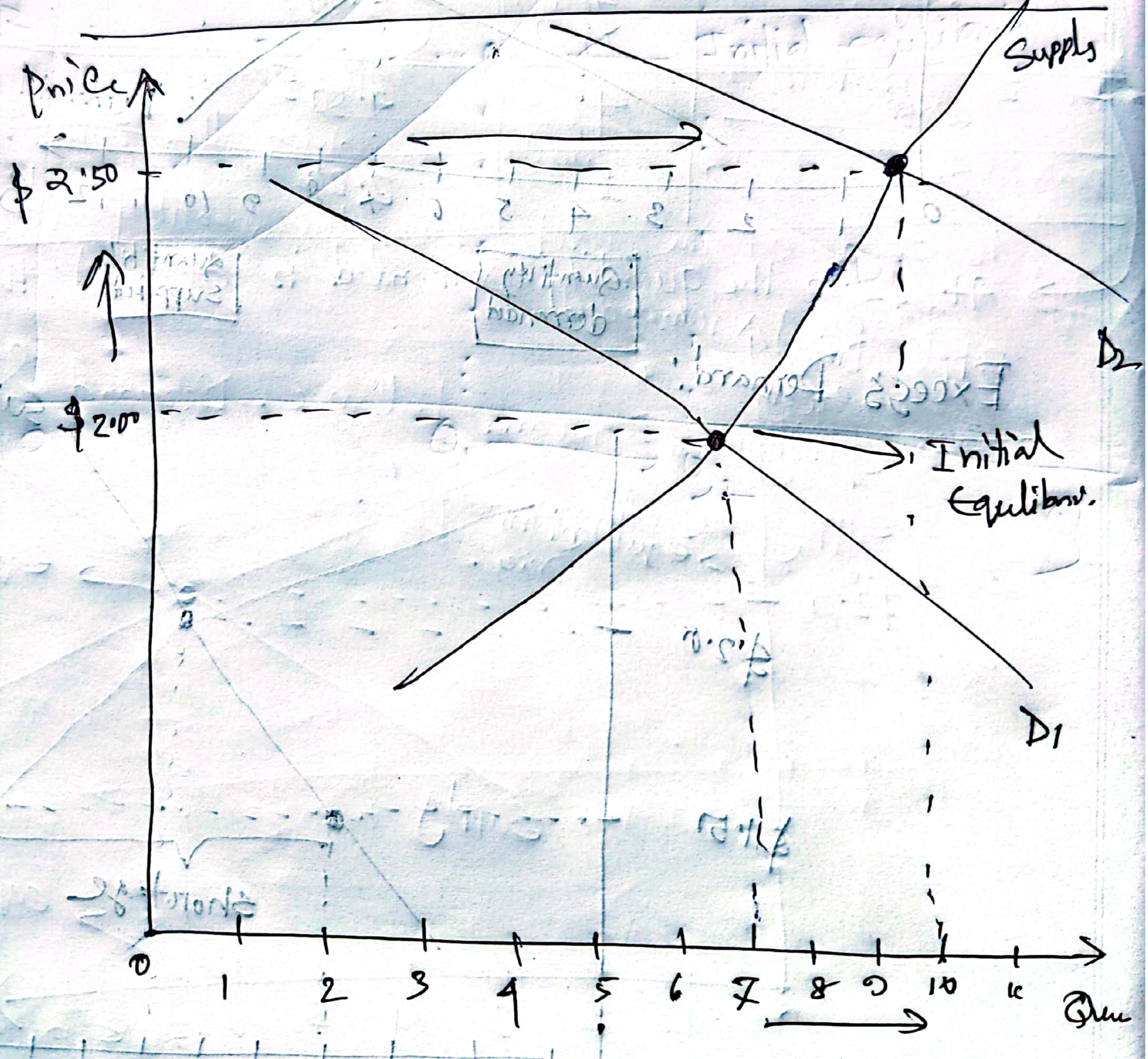
Three steps to Analyzing Changes in equlibrium:

1. Decide whether the event shifts the supply or demand curve

Example: A Heat wave

How an increase Demand Affects the equilibrium



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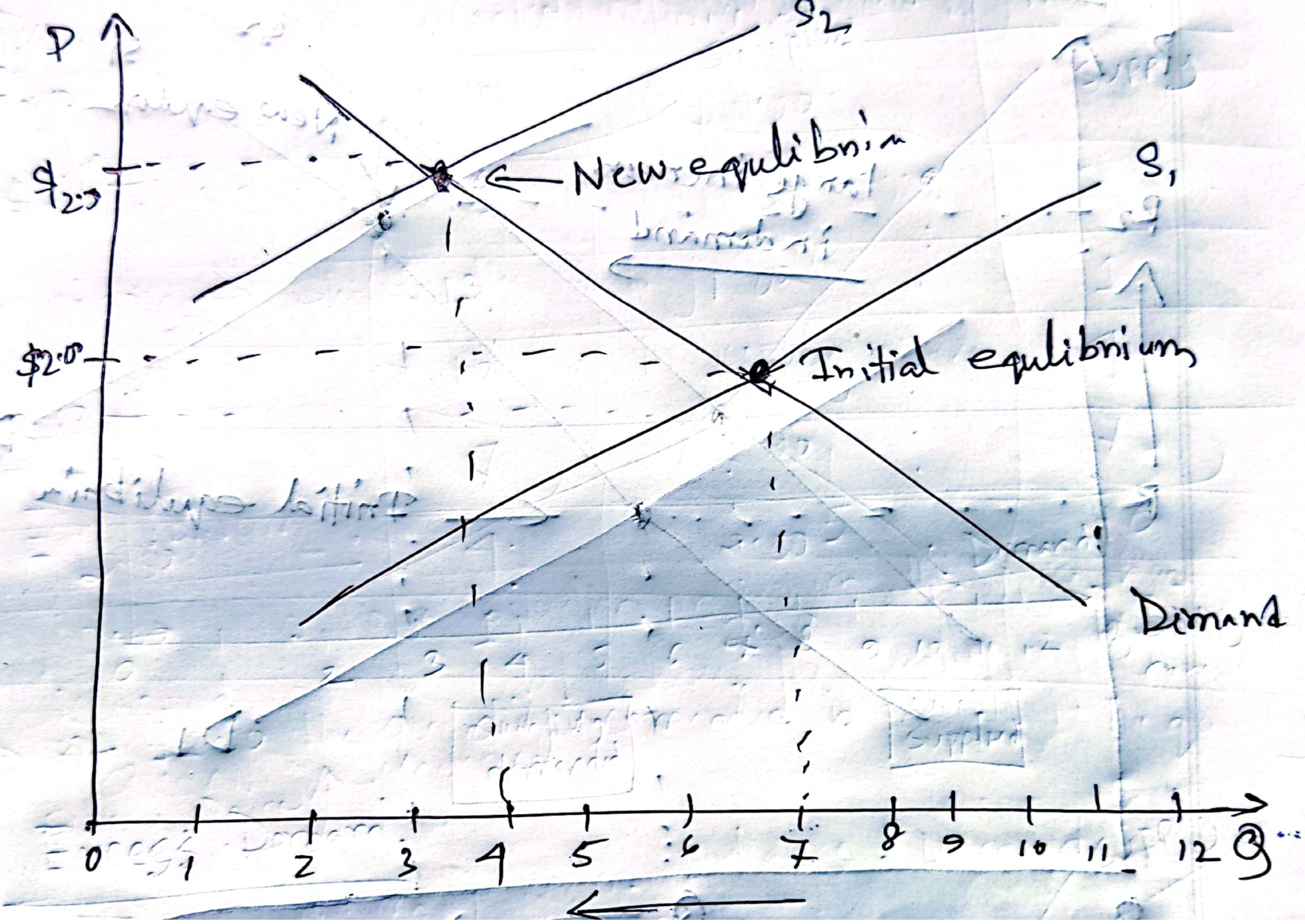
How a decrease Demand Affects the equlibrium:



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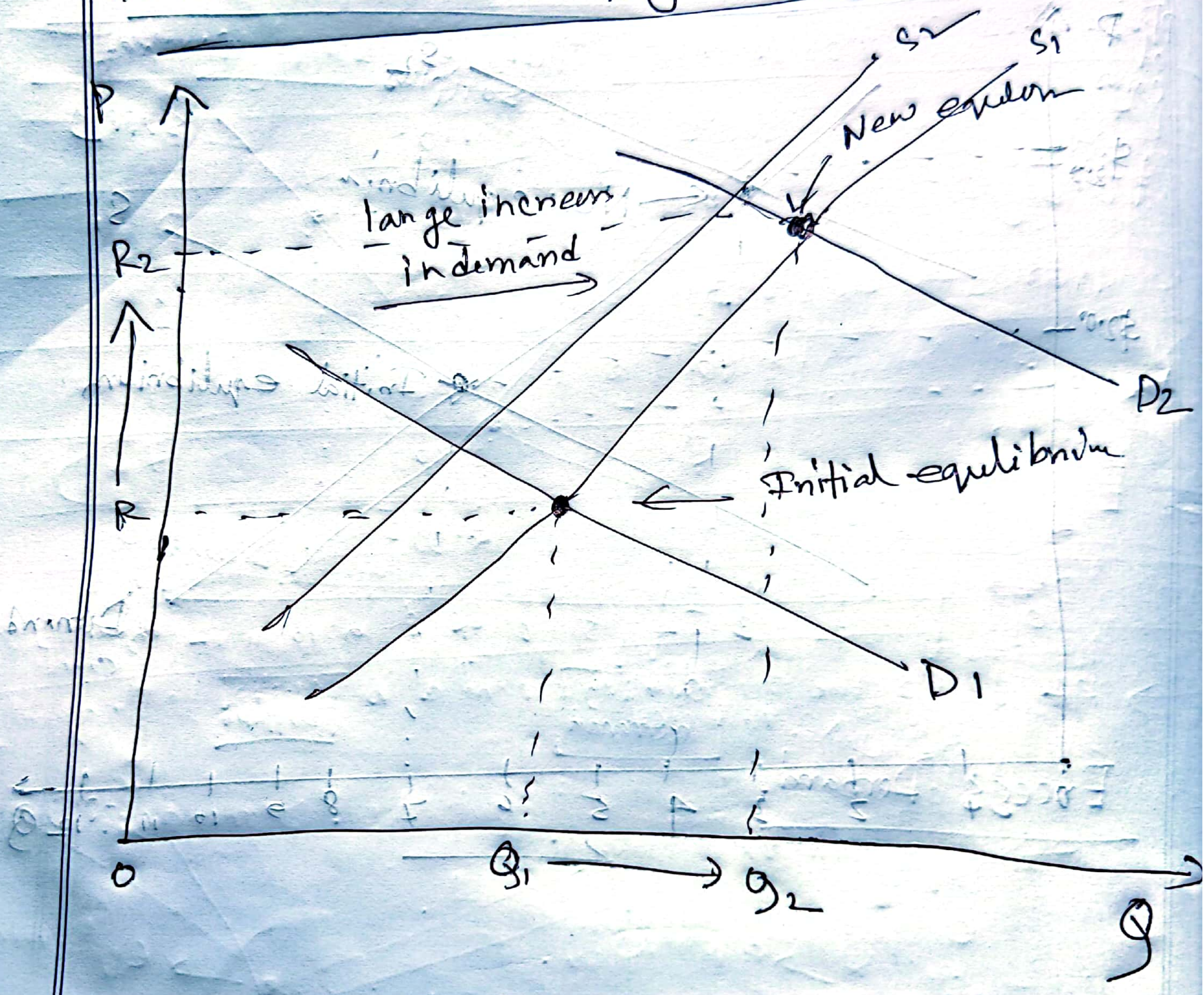
A shift in Both supply & Demand :



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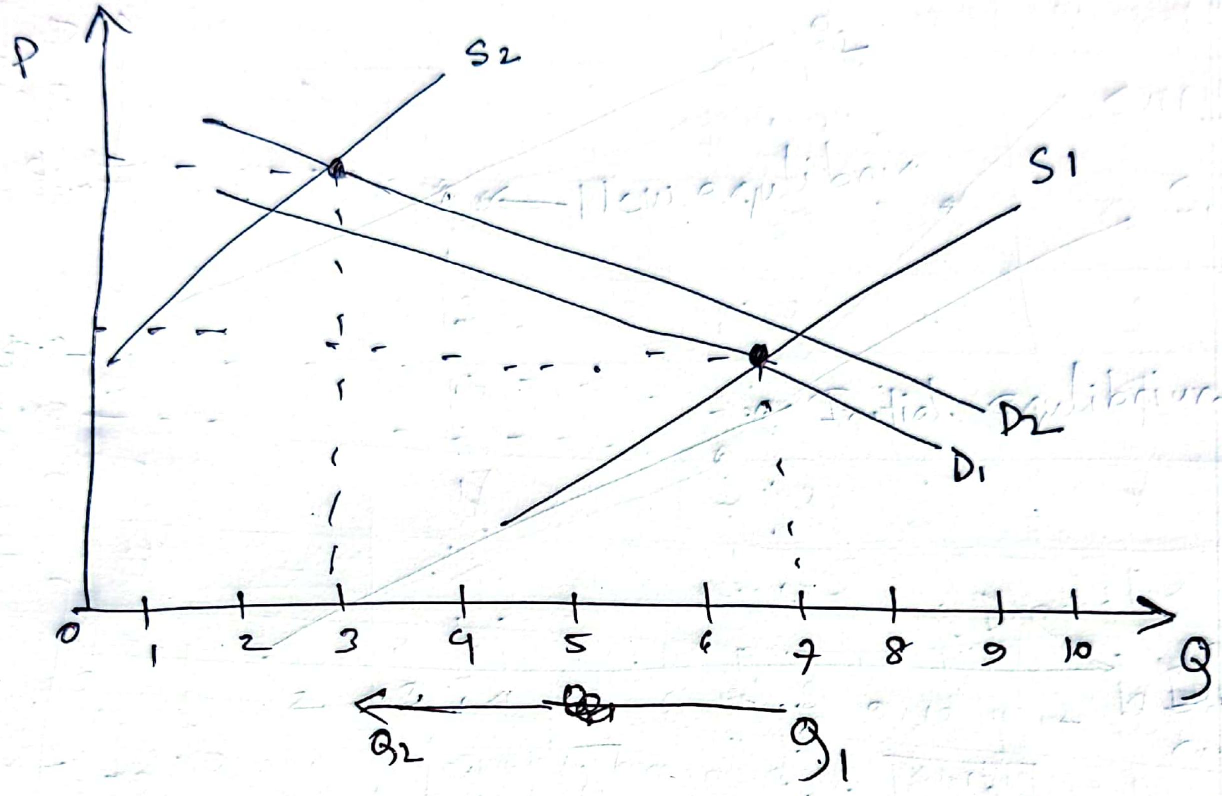
A shift in Both supply & Demand :



	No change in supply	An increase in supply	A decrea in supply
No change in Demand	P Same Q Same	P down ↓ Q ↑	P ↑ Q ↓
An increase in Demand	P ↑ Q ↑	P ambigious Q ↑	P up ↑ Q ambigu
A Decrea in Demand	P ↓ Q ↓	P ↓ Q ambigious	P ambigiu Q ↓