What is a market?

A **market** is any kind of arrangement where buyers & sellers of goods, services or resources are linked together to carry out an exchange.

Market Structures

Markets can be **structured** in many different ways, including:

- **Monopoly**: one firm selling, almost complete power to set prices
- **Oligopoly**: Small number of firms selling.
- Duopoly: Two firms that dominate market and prices
- **Monopolistic competition**: Many firms selling but they have some power to set prices
- **Free Market**: System where prices are determined by firms competing.

Notes

Markets can be: local, national, or international.

Local: Restaurant market

National: Labour Market

International: Oil market

Competitive Markets

We study **Competitive Markets** in this unit, which have the following characteristics:

- Large number of buyers and sellers.
- No market power

Monopoly power means:

- Individual seller or small group can control price of products.

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Demand Basics Notes

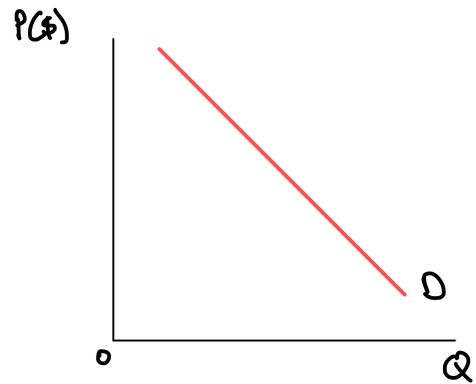
DEMAND

- **Individual demand:** the quantity of a good or service a consumer is willing and able to buy at different prices at a particular time, ceteris paribus.

- **Market demand:** the quantities of a good or service consumers are willing and able to buy at all prices at a particular time, ceteris paribus
- The sum of all individual demand for a good or service.

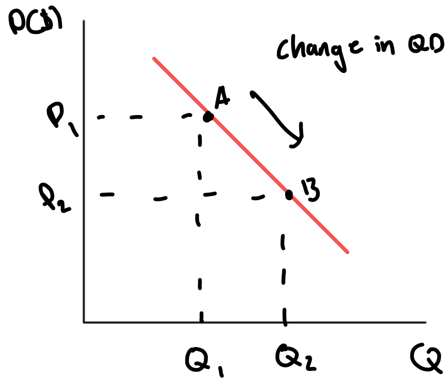
When economists say "demand," they usually mean market demand.

Market demand is graphed with a demand "curve:"



DEMAND VS QUANTITY DEMANDED

- Demand = entire demand curve.
- **Quantity demanded:** the amount of a good or service consumers are willing and able to buy at one particular price.
- Represented by a "point" on the curve.



LAW OF DEMAND

- The **Law of Demand** states:
  - Price g&s ↑, QD ↓
  - Price g&s ↓, QD ↑

- This is known as a negative causal relationship.

Substitution effect + Income effect = law of demand.

SUBSTITUTION EFFECT

- Reaction to a price increase by consuming less of the more expensive item and more of a less expensive item.
- People swap a more expensive item for a less expensive item.

INCOME EFFECT

- Changes in price affect people's purchasing power.
- People buy less of the item they need that has increased in cost without increasing purchases of other items.

MARGINAL UTILITY

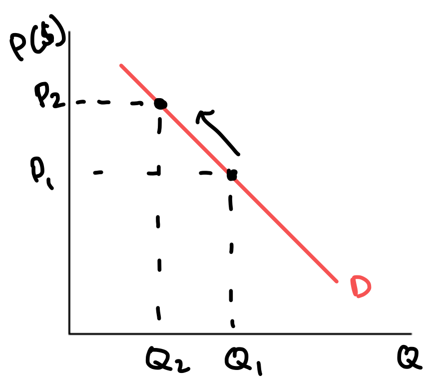
- "Utility" = happiness, satisfaction or benefit.
- "Marginal" = extra, incremental or additional.
- Marginal utility or **marginal benefit =** the extra or additional benefit received from consuming more of a good or service.

DECLINING MARGINAL BENEFIT

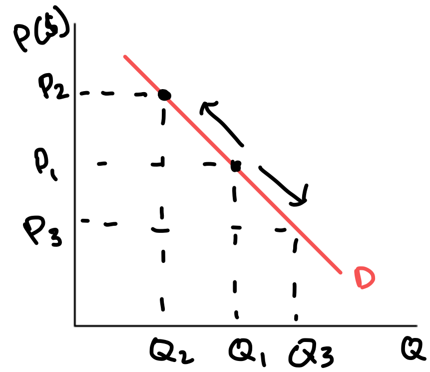
- The greater the quantity consumed, the greater the total benifit.
- But, the extra benifit provided by consuming each additional unit of a good or service increases by… Smaller and smaller amounts
- Since marginal benefit falls as quantity consumed increases, the consumer will only buy another unit if price falls.

PRICE CHANGE AND DEMAND

- Ceteris paribus, when the price of a good changes, only the quantity demanded for that good changes.



- For example, if the price of chocolate bars goes up, the quantity demanded will go down (left).

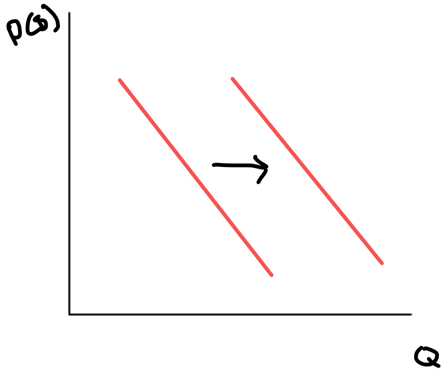


If the price of chocolate bars goes down, the quantity demanded will go up (right).

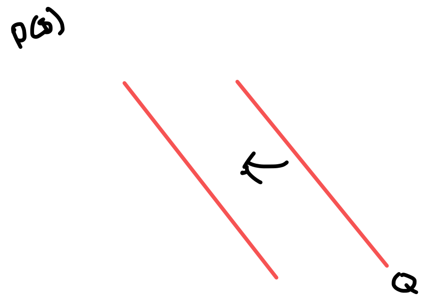
SHIFTS OF THE ENTIRE DEMAND CURVE

- If relevant variables other than price change, then the entire curve will shift right or left.

For instance, if a study is released that says eating chocolate makes a person look "sexier," then preferences will change and consumers will demand more chocolate at every price.



If, however, a study is released that shows eating chocolate is not healthy, then consumer preferences will change so that there is less demand for chocolate at every price.



NON-PRICE DETERMINANTS

The variables that shift the demand curve are called non-price determinants of demand

- Consumer income
- Preferences and taste
- Future price expectations
- Number of consumers
- Changes in price of substitutes and compliments