

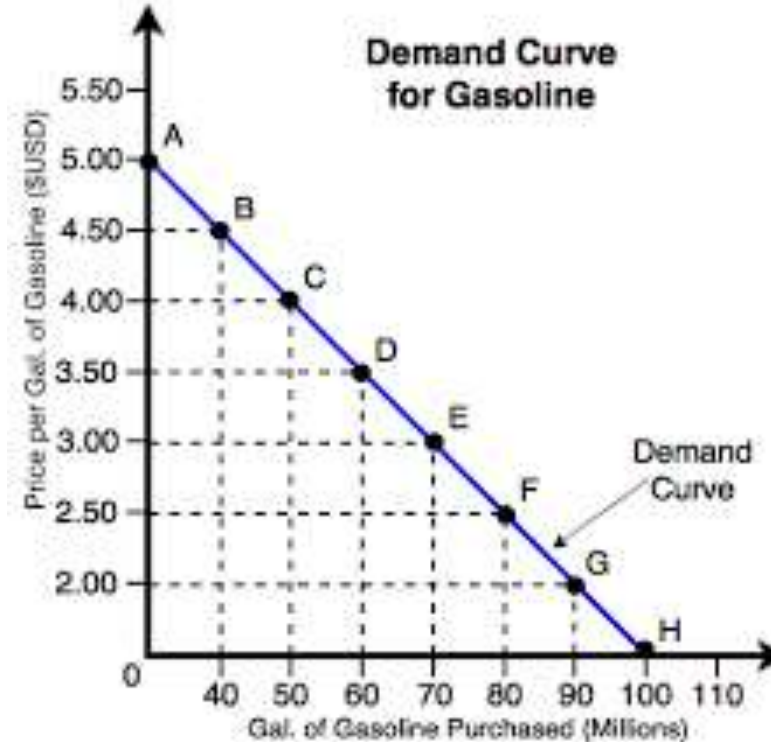
Interpreting Market Dynamics

Law of demand :

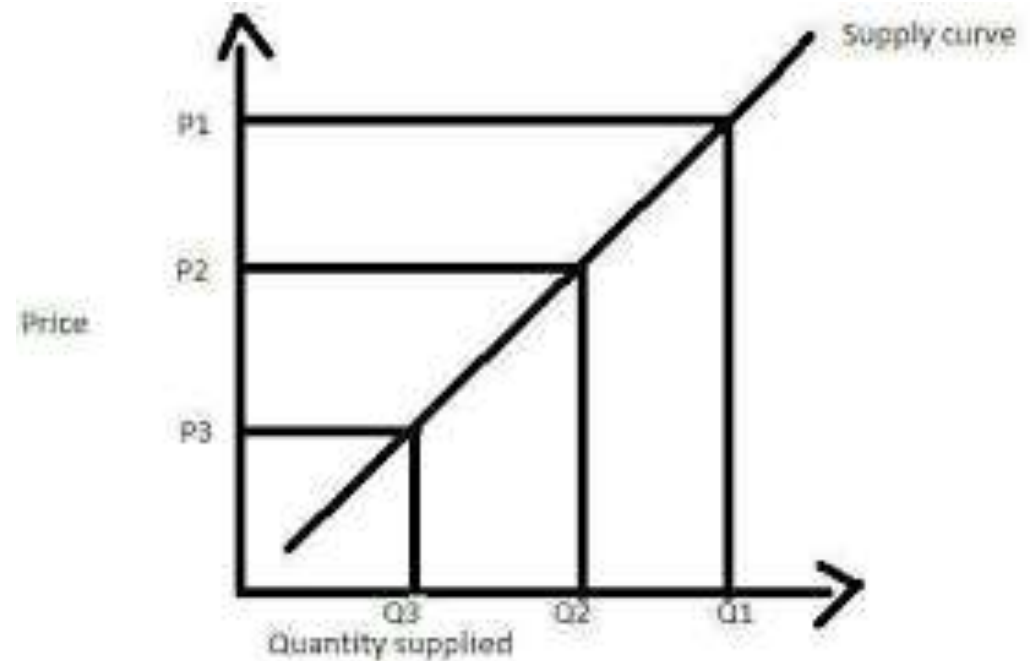
At low prices, more is demanded and at higher prices, less is demanded

Demand curve – downward sloping:

Inverse relationship between demand and price of the product

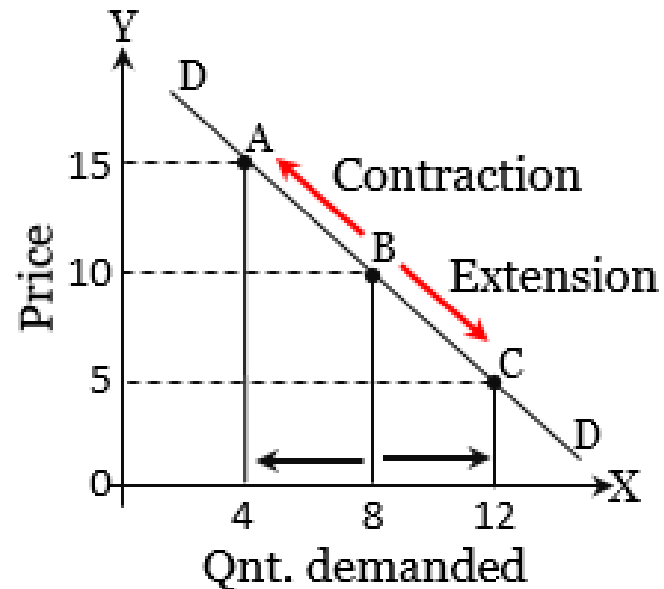


- Law of Supply:
- At low prices less is supplied and at higher prices more is supplied by the producers.
- Supply curve – Upward sloping:
- Positive relationship between the quantity supplied in the market by producers and the price of that product.



Extension and Contraction of demand Versus Shifts of demand curve

Owing to rise in price of that good



Owing to changes in non price factors- say income, tastes, expectations of the market

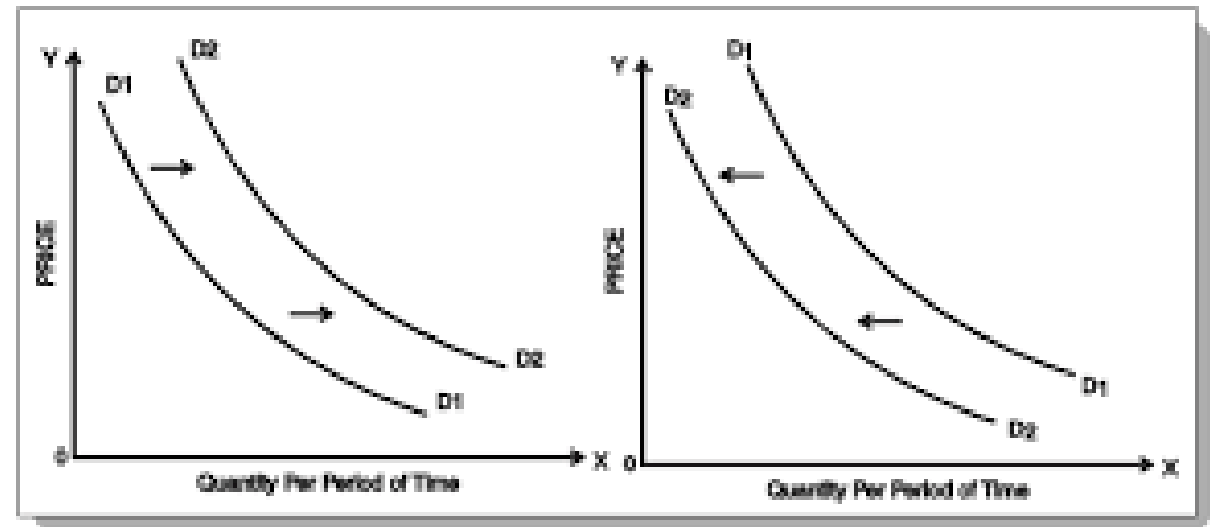
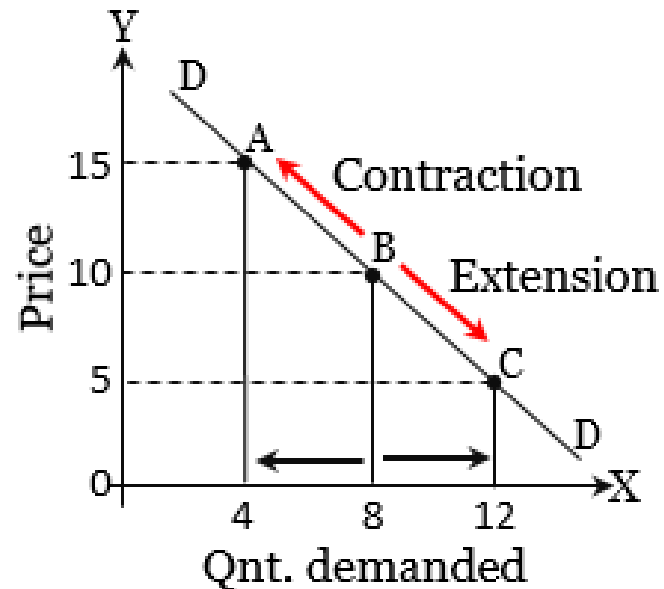


Fig. 3(a) : Rightward shift in the demand Curve

Fig. 3(b) : Leftward shift in the demand curve.

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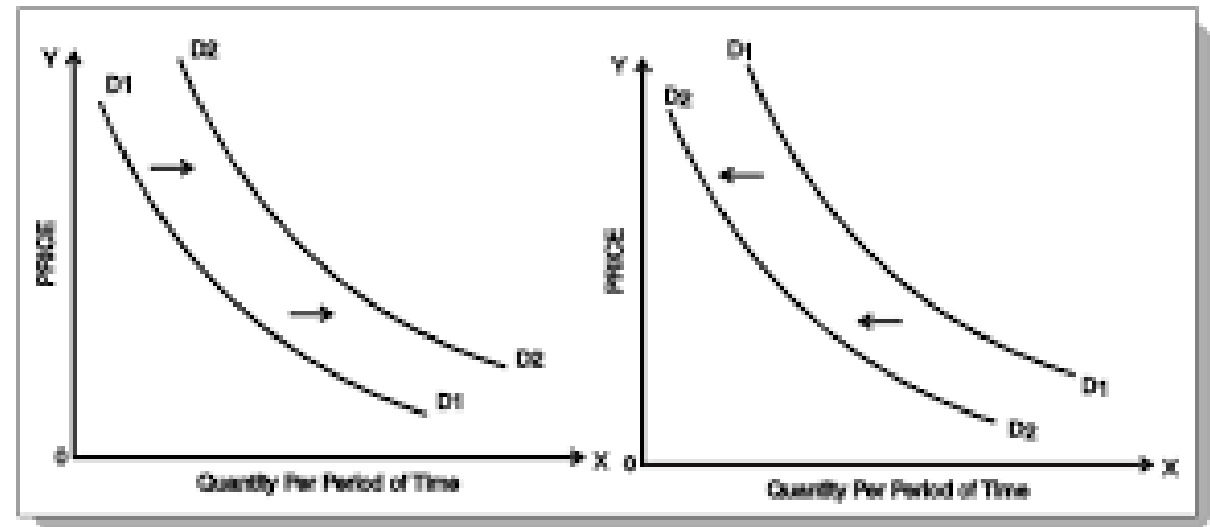
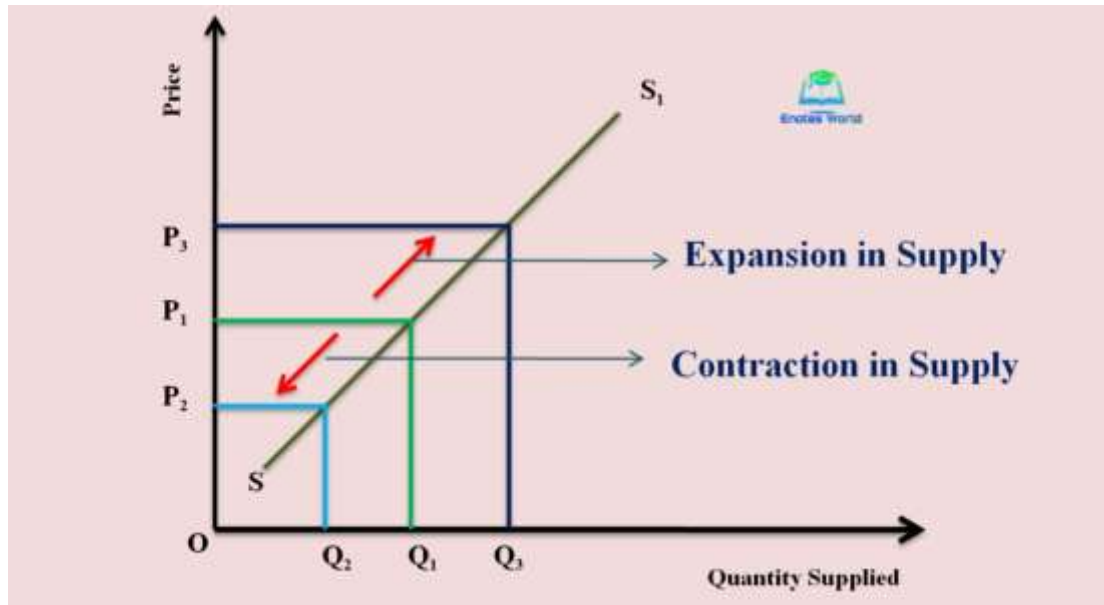


Fig. 3(a) : Rightward shift in the demand Curve

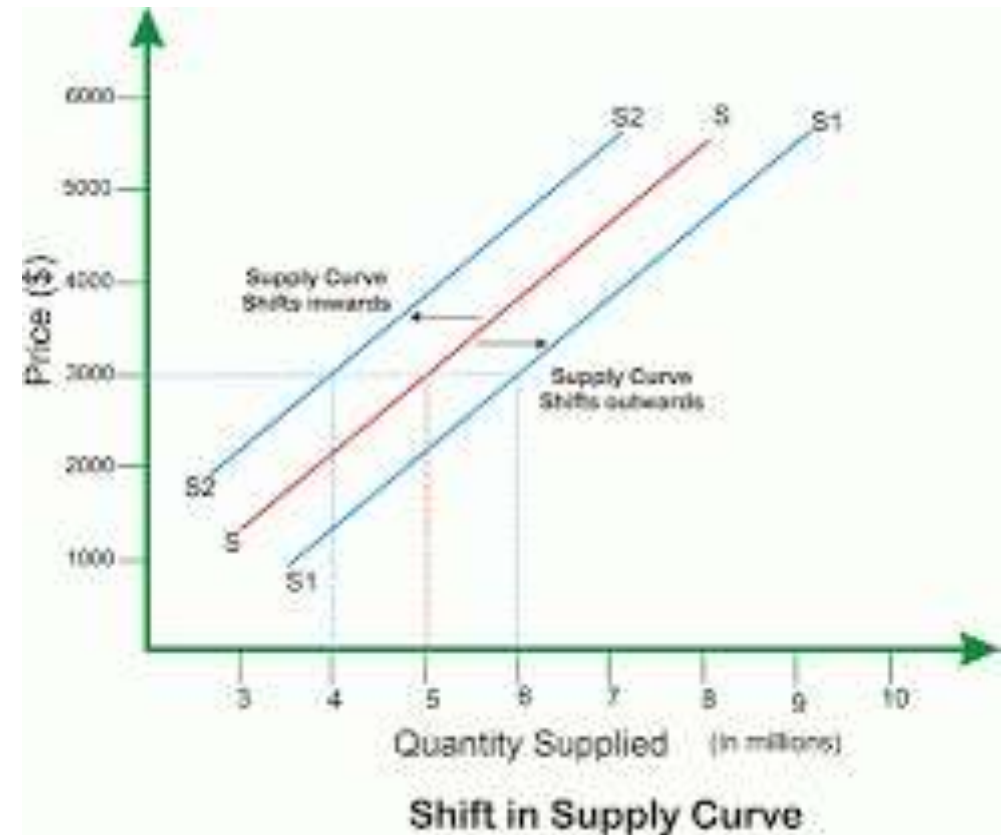
Fig. 3(b) : Leftward shift in the demand curve.

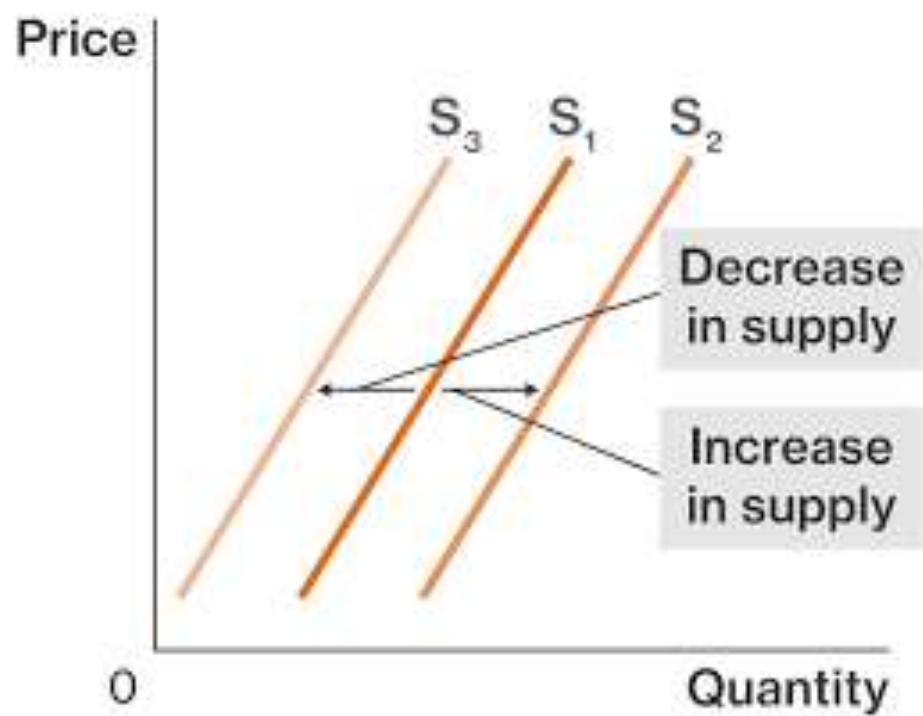
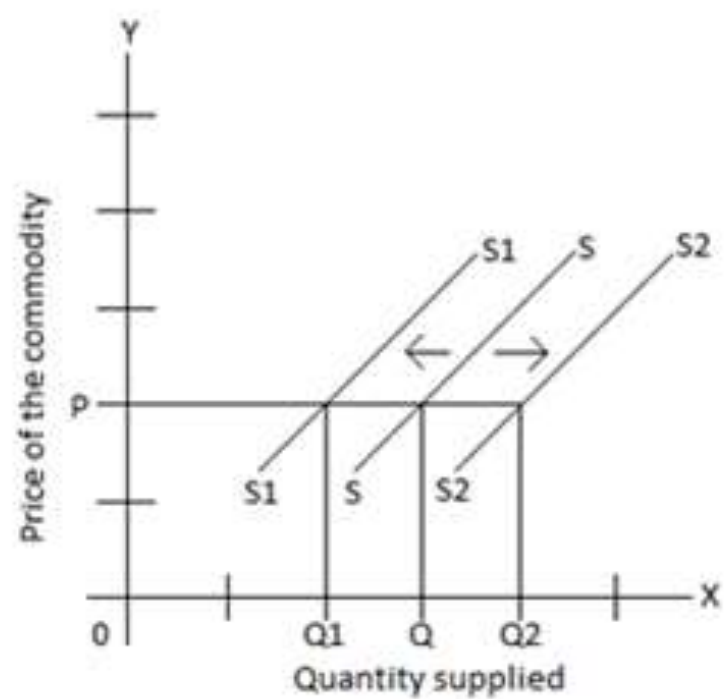
Extension and Contraction of demand Versus Shifts of demand curve

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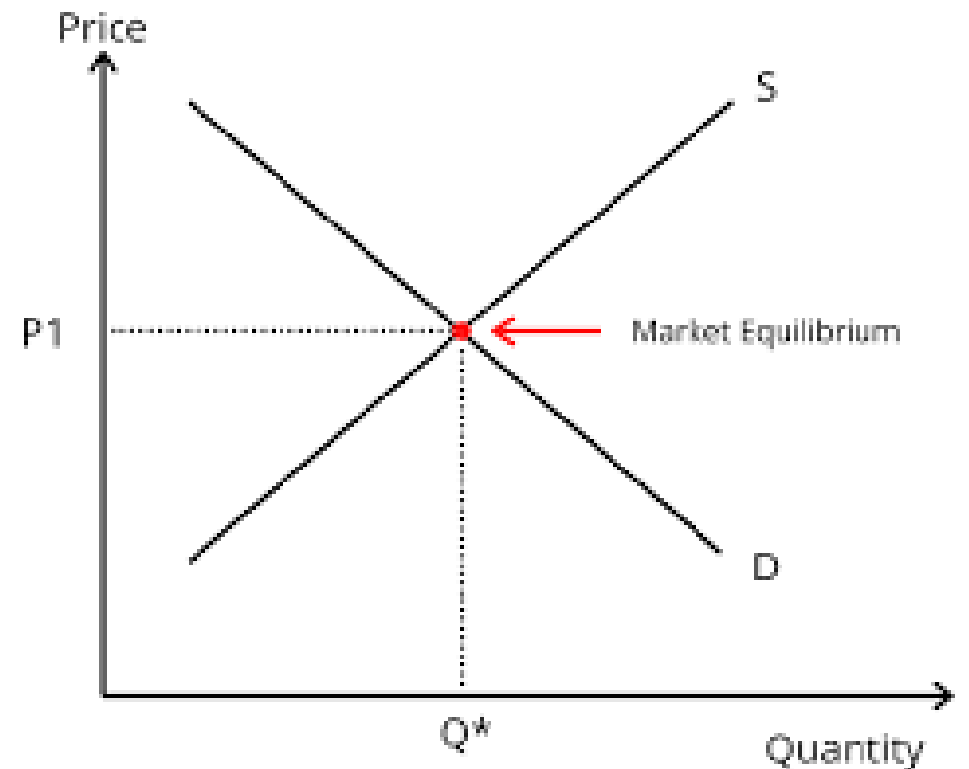
Owing to changes in non price factors- say income, tastes, expectations of the market





Market equilibrium

- Market equilibrium - Demand and Supply put together





Market Disequilibrium

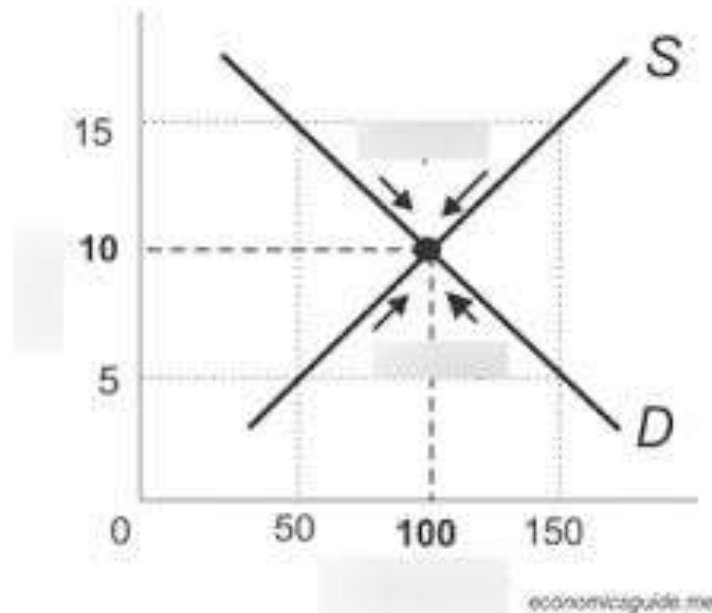
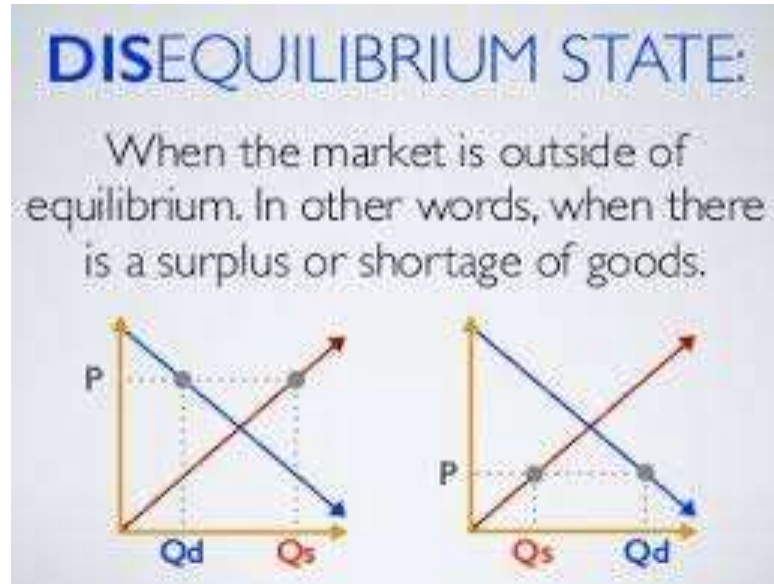
Imbalances in the market

Excess demand

Fall in demand

Excess Supply

Shortage in supply

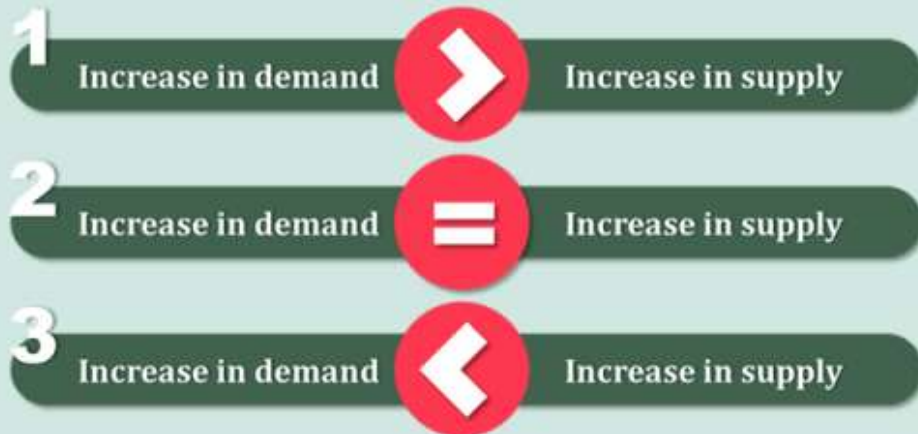


Simultaneous change in demand and supply

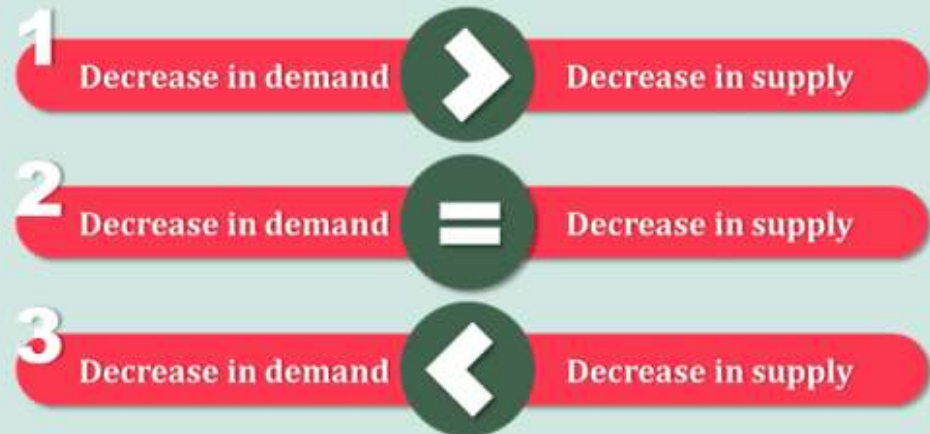
Simultaneous change in demand and supply on equilibrium shows the effect of increase or decrease in demand and supply simultaneously on market equilibrium point.

Tutor's Tips

A simultaneous increase in demand and Supply



A simultaneous decrease in demand and Supply



Effect of Simultaneous change in demand and supply:

1. A simultaneous increase in demand and Supply
 2. The simultaneous decrease in demand and Supply
- **A simultaneous increase in demand and Supply:**
 - The simultaneous increase in demand and supply results in an increase in the equilibrium quantity of the commodity. Whereas the change in price depends upon the following conditions:
 1. Increase in demand $>$ increase in supply
1. When Increase in demand = increase in supply
 2. Increase in demand $<$ increase in supply

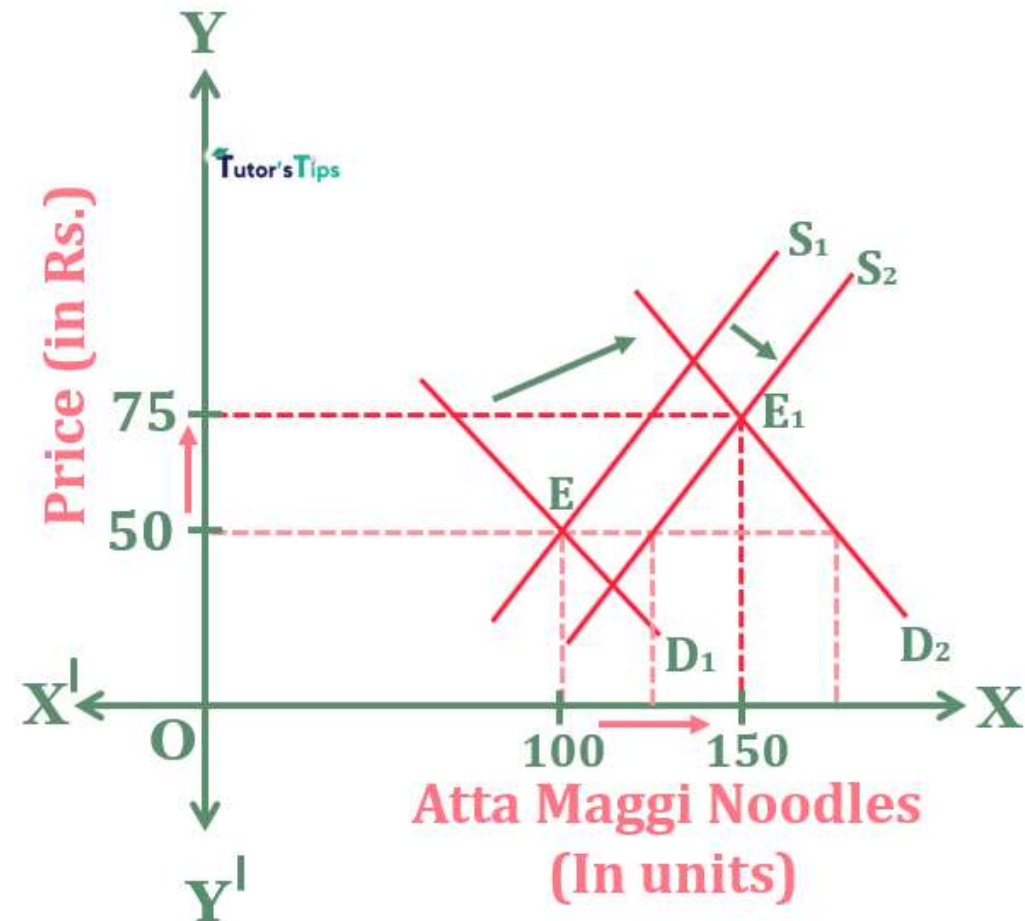
1. Increase in demand > Increase in supply:

When the increase in demand is greater than the increase in the supply of a commodity as a Simultaneous change in demand and supply, the equilibrium quantity and equilibrium price rises.

when the increase in demand > increase in supply, then

1. The equilibrium price rises.

2. and, the equilibrium quantity also increases.

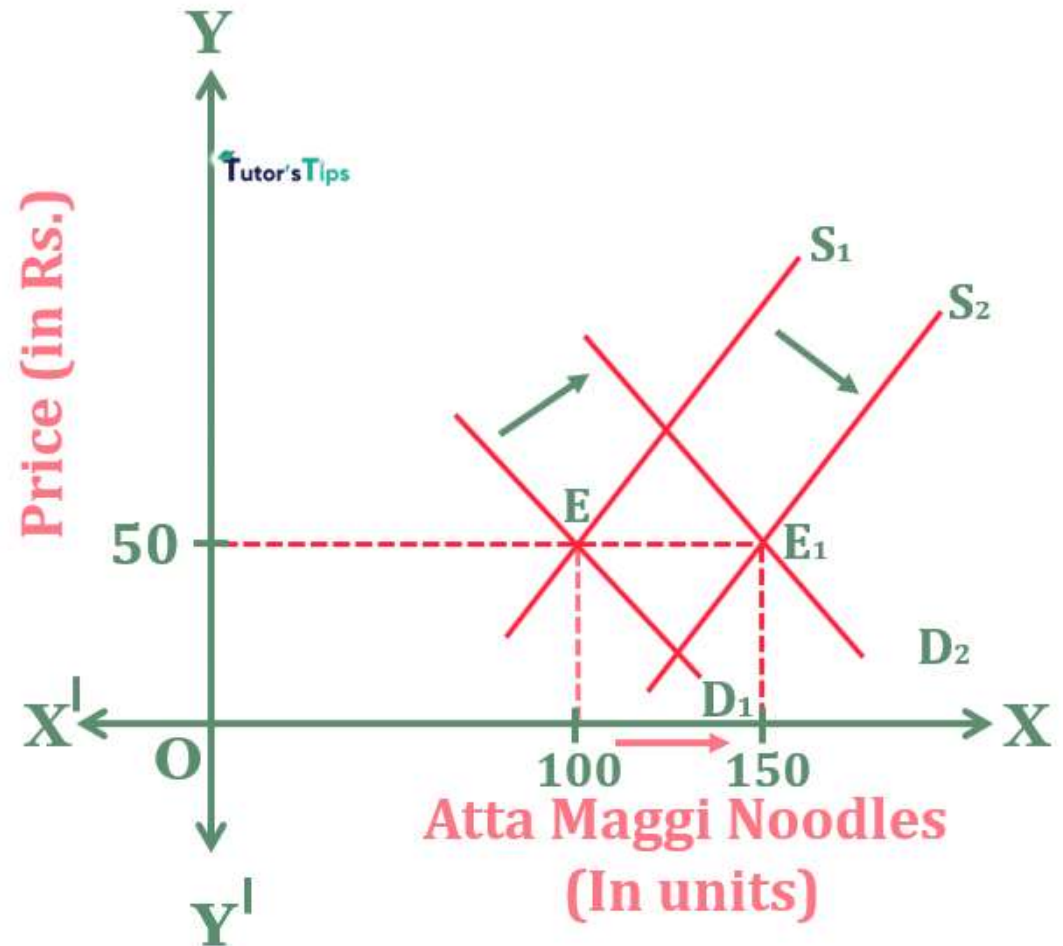


2. Increase in demand = increase in supply:

When the increase in demand is equal to the increase in the supply of a commodity as a simultaneous change, the equilibrium quantity increases and the equilibrium price doesn't get affected.

when the increase in demand = increase in supply, then

- 1. The equilibrium price remains unchanged.*
- 2. and, the equilibrium quantity increases.*



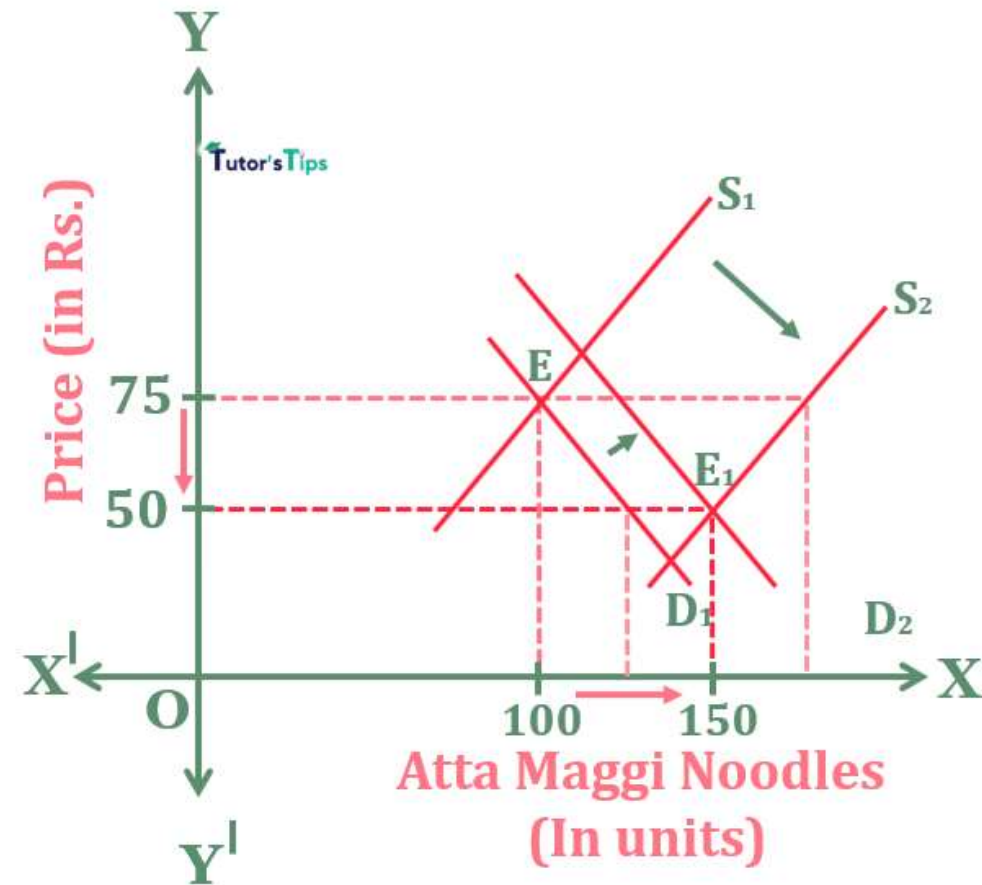
3. Increase in demand < increase in supply:

When the increase in demand is less than the increase in the supply of a commodity as a simultaneous change, the equilibrium quantity increases and equilibrium price falls.

*when the increase in demand < increase in supply,
then*

1. The equilibrium price falls.

2. and, the equilibrium quantity increases.



A simultaneous decrease in demand and Supply:

- The simultaneous increase in demand and supply results in a decrease in the equilibrium quantity of the commodity. Whereas the change in price depends upon the following conditions:
 - 1.The Decrease in demand $>$ decrease in supply
 - 2.When the decrease in demand = decrease in supply
 - 3.The Decrease in demand $<$ decrease in supply

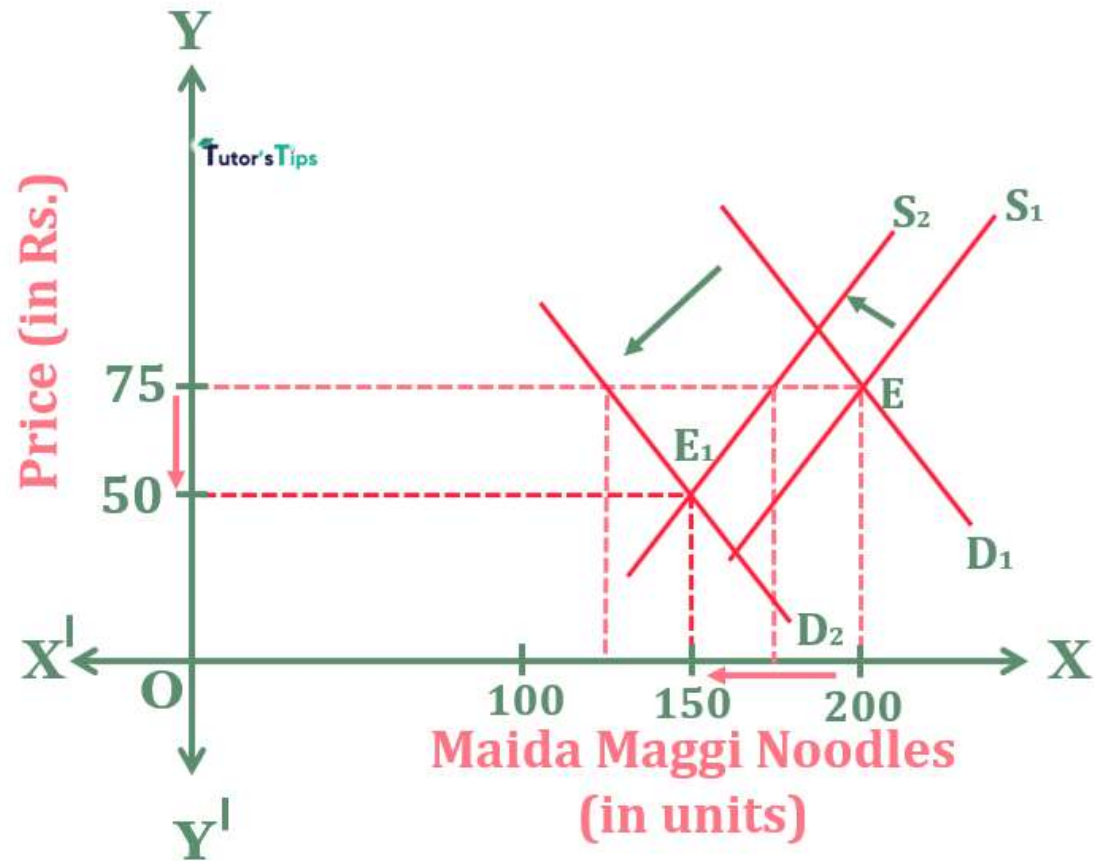
1. The decrease in demand > decrease in supply:

When the decrease in demand is greater than the decrease in the supply of a commodity as a Simultaneous change in demand and supply, the equilibrium quantity and equilibrium price falls.

Thus, when the decrease in demand > decrease in supply, then

1. The equilibrium price falls.

2. and, the equilibrium quantity also decreases.

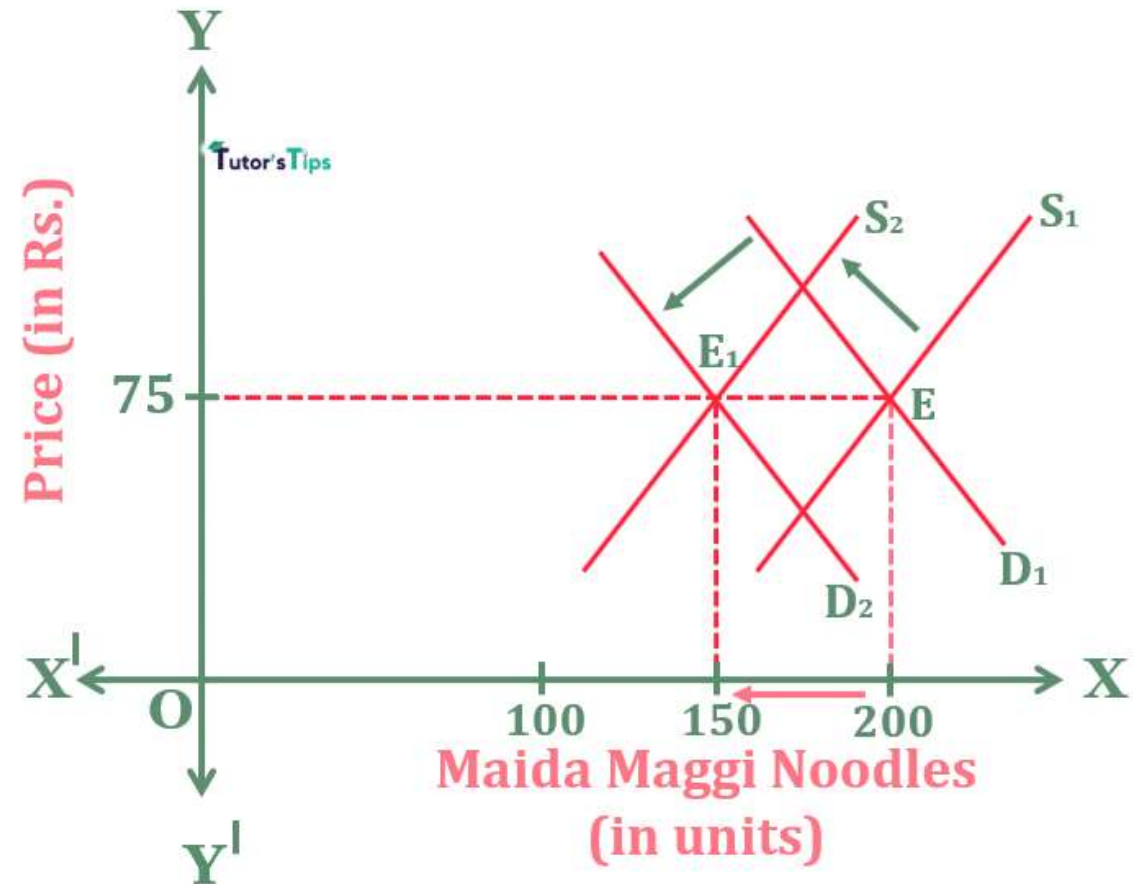


2. The decrease in demand = decrease in supply:

When the decrease in demand is equal to the decrease in the supply of a commodity as a Simultaneous change in demand and supply, the equilibrium quantity falls and the equilibrium price gets unaffected.

Thus, when the decrease in demand = decrease in supply, then

- 1. The equilibrium price remains unchanged.*
- 2. and, the equilibrium quantity decreases.*

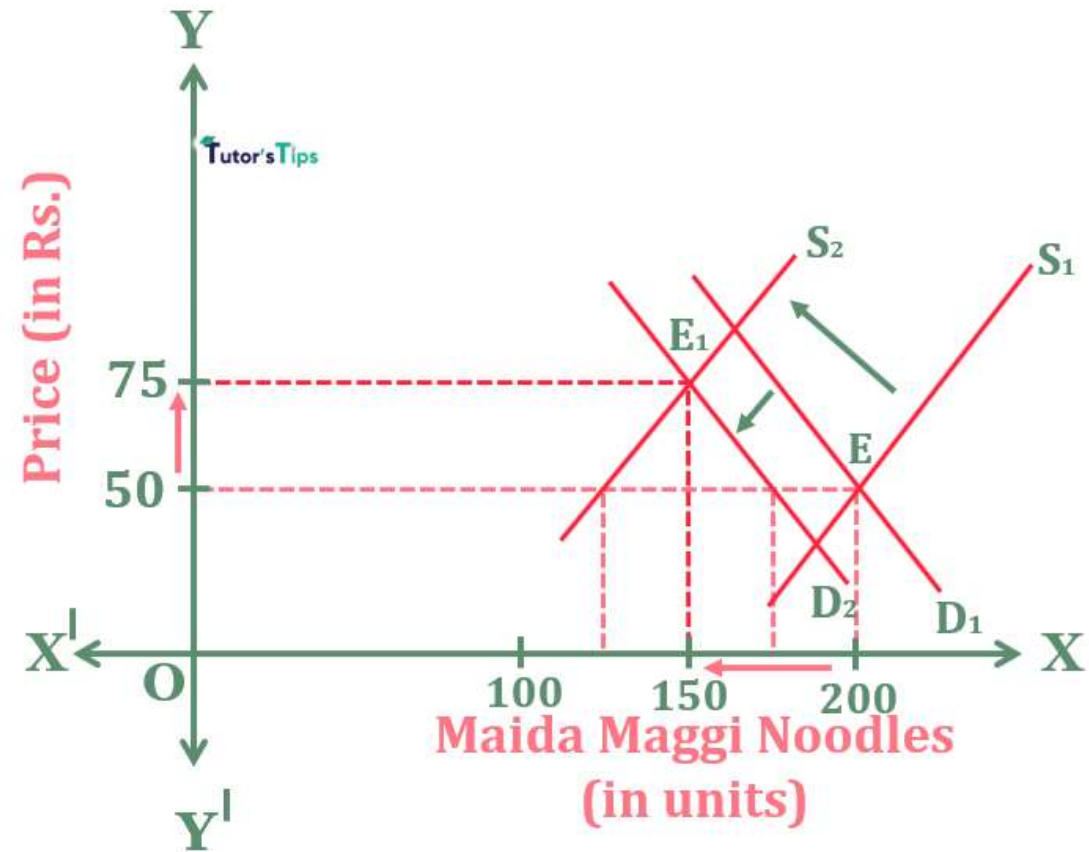


The decrease in demand < decrease in supply:

When the decrease in demand is less than the decrease in the supply of a commodity as a simultaneous change, the equilibrium quantity falls and the equilibrium price rises.

Thus, when the decrease in demand < decrease in supply, then

- 1. The equilibrium price rises.*
- 2. and, the equilibrium quantity decreases.*



Simultaneous shifts in Demand and Supply

		Shift in supply	
		Decrease in supply	Increase in supply
Shift in demand	Decrease in demand	Equilibrium price ? Equilibrium quantity ↓	Equilibrium price ↓ Equilibrium quantity ?
	Increase in demand	Equilibrium price ↑ Equilibrium quantity ?	Equilibrium price ? Equilibrium quantity ↑

Shift in supply	
Decrease in supply	Increase in supply
Equilibrium price ? Equilibrium quantity ↓	Equilibrium price ↓ Equilibrium quantity ?
Equilibrium price ↑ Equilibrium quantity ?	Equilibrium price ? Equilibrium quantity ↑

Change in DD = Change in SS

Q1	Q2	Q3	Q4
P= same	P =down	P up	P same
Q= decreases	Q =same	Q = same	Q increases

Change in DD > Change in SS

Q1	Q2	Q3	Q4
P= same	P down	P up	P up
Q= falls	Q down	Q increases	Q up

Change in DD < Change in SS

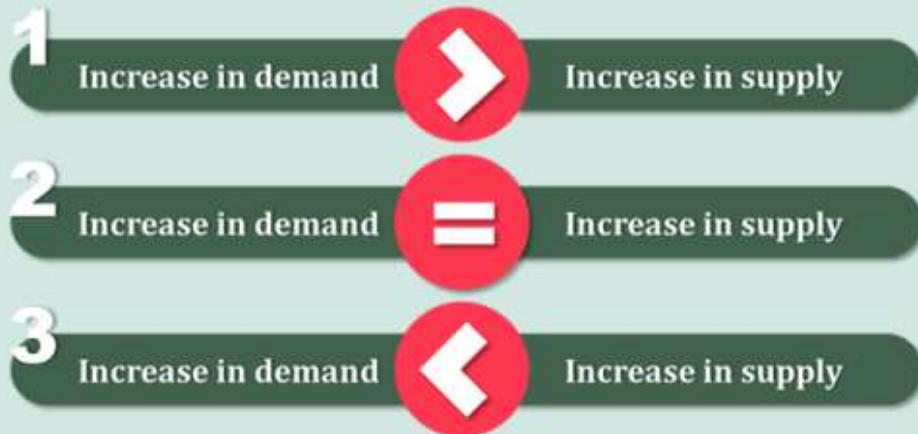
Q1	Q2	Q3	Q4
P= up	P down	P down	P up
Q= down	Q up	Q up	Q bottom

Simultaneous change in demand and supply

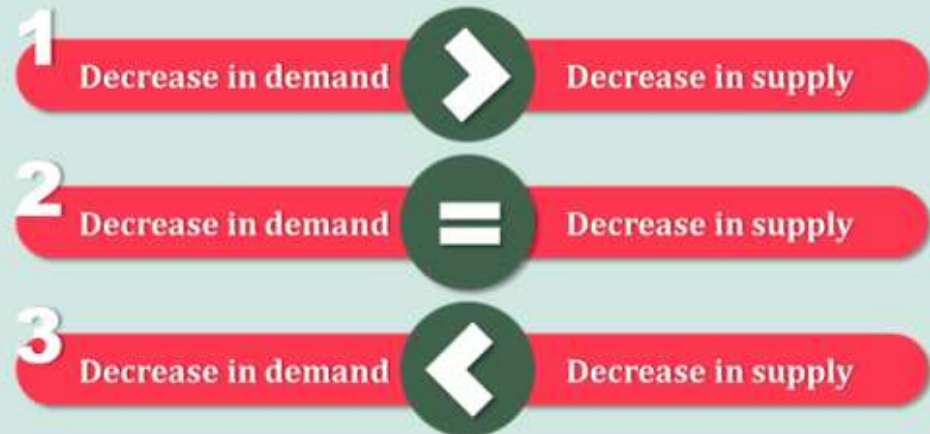
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Simultaneous shifts in Demand and Supply

Shift in Demand	Shift in Supply	Quantity	Price
Leftward	Leftward	Decreases	May increase, decrease or remain constant
Rightward	Rightward	Increases	May increase, decrease or remain constant
Leftward	Rightward	May increase, decrease or remain constant	Decreases
Rightward	Leftward	May increase, decrease or remain constant	Increases

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