# ECO101: Introduction to Microeconomics

Lecture 3

# Markets

- Market- An arrangement that enables **buyers** and **sellers** to get information and to do business with each other

- Different types of Markets:
  - Maket for Goods
  - Market for Services
  - Money Market…etc etc

*Only our imagination limits what can be traded in a market*

# A Competitive Market

- Competitive Market- a market that has many buyers and many sellers, so **NO** single buyer or seller can influence the **price**.

Can you think of an example?

# Money Price and Relative Price

- **Money Price**- price of an object, where taka/ pound/dollar must be given up in exchange for it.

Remember! *Opportunity cost* of an action is the highest valued alternative forgone.

E.g.- If Coffee- 300tk & Snickers 100tk, what is the opportunity cost of buying a Coffee?

# Money Price & Relative Price

- Similarly, like the opportunity cost, which you calculate by the ratio of one price to another, it is called a **relative price**, and ***a relative price is an opportunity cost.***

- So essentially, we can express the relative price of coffee in terms of snickers or any other good.

# The study of Demand & Supply- Demand

- The Law of Demand- The **higher** the price of a good, the **smaller** is the quantity demanded; and the **lower** the price of a good the **greater** is the quantity demanded, other things remaining same (ceteris paribus)
- And this due to:

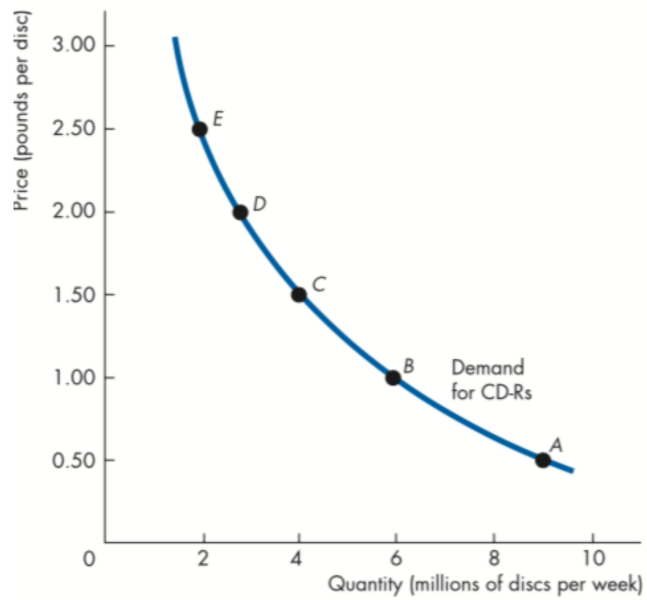
1. **Substitution Effect-** When the price of a good rises, other things remaining the same, its *relative* price – its opportunity cost – rises. And so as opportunity of a good rises, people buy less of that good and more of its substitutes.
2. **Income Effect-** When price of good rises, people with unchanged income must decrease the quantities demanded of at least some goods and services

# Demand Curve

- Demand- The entire relationship between the price of the good and the *quantity demanded* of the good

- Quantity demanded- the quantity demanded of a good or service is the amount that consumers plan to buy during a given time period at a particular price. The term *quantity demanded* refers to a point on a demand curve

The Demand Curve



# Change in quantity demanded **Vs** Change in demand

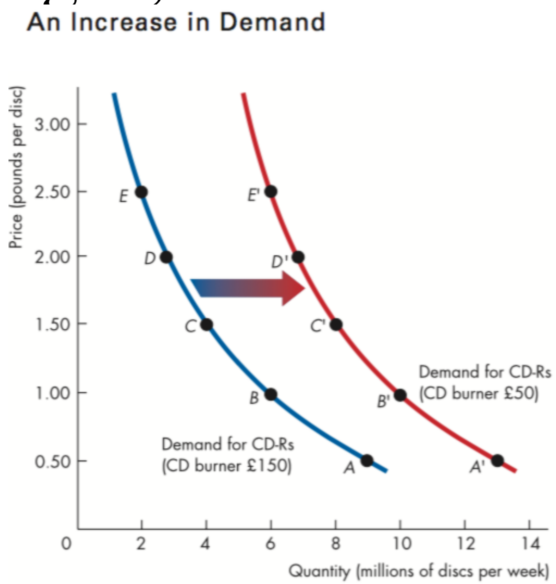
- Change in quantity demanded- Movement along the demand curve: *when price of a good changes and everything remains the same*

- Change in demand- When there is a shift in demand curve : *when the price remains same but some other influence on buyers' plans changes*

# Change in Demand

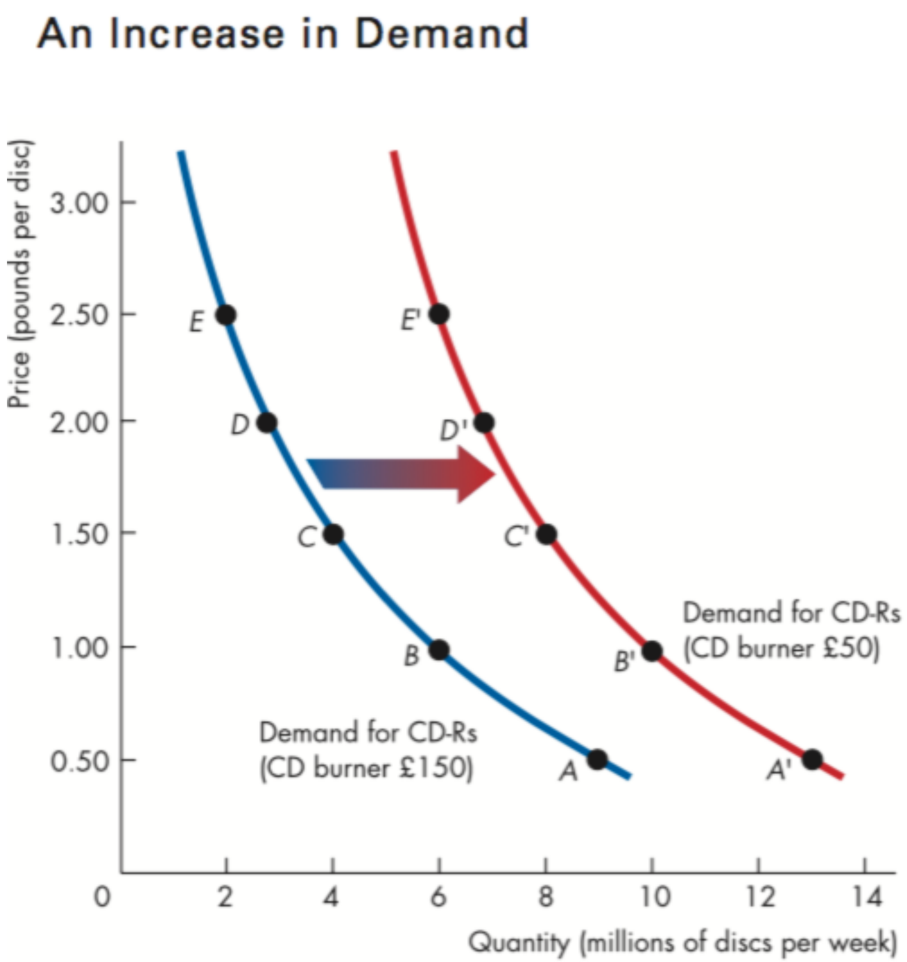
So what causes a shift in the Demand Curve?

When any **factor** that influences buying plans other than the price of the good changes, there is a *change in demand*



# Six factors of changes in demand

1. Prices of related goods
2. Expected future prices
3. Income
4. Expected future income
5. Population
6. Preferences



# A short synopsis

**Changes in Demand**

*The demand for CD-Rs*

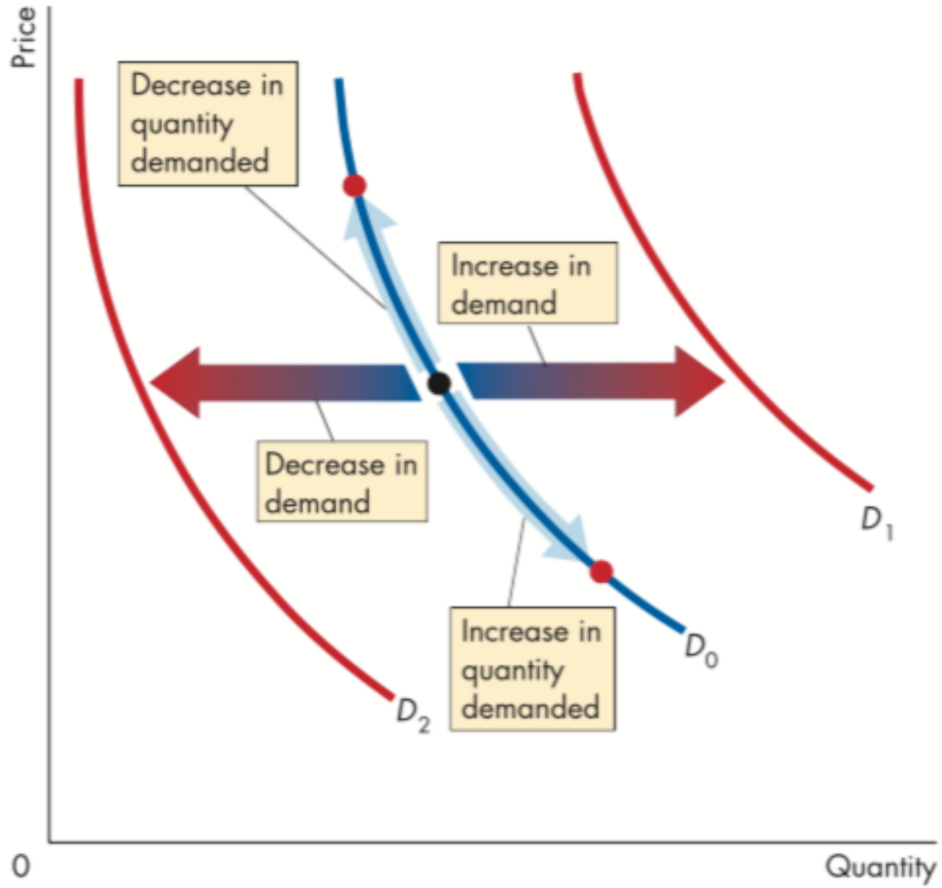
*Decreases if:*

- The price of a substitute falls
- The price of a complement rises
- The price of a CD-R is expected to fall in the future
- Income falls*
- Expected future income falls
- The population decreases

*Increases if:*

- The price of a substitute rises
- The price of a complement falls
- The price of a CD-R is expected to rise in the future
- Income rises*
- Expected future income rises
- The population increases

*A CD-R is a normal good.



# Required Readings for Today!

*Parkin, Powell, Matthews. Economics. 8th*

*Edition*

*Chapter 3- pages 56; 57-61*