Supply and Demand

Markets

(Little or no government interference)

Fundamentals of markets: Firms - supply goods + services
Consumers
Exchange - market price established
supply/demand factors can change market price

Sellers and buyers come together to form e.g. Ebay

Markets - price determined by forces of supply and demand
buying and selling is voluntary

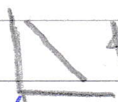
Competitive - many buyers and sellers
- no individual has any influence over price
- price determined by entire market (price taker)

Imperfect - buyer/seller has influence on price

Monopoly - when single company supplies entire market for a good/service

Demand

(inverse relationship)

Law of Demand - all things equal,  * (between price and quantity demanded)

amount of a good purchased at a given price

(price) (buyer 1 + buyer 2) = market demand

Demand schedule - table showing relationship *
Demand curve - graph of relationship *

Market demand - Horizontal sum of all individual quantities demanded by buyers in the market at each price

Shifts in Demand

Movement along a demand curve - caused by change in price of good
- inverse relationship

Shift in demand - caused by non-price factors
- entire demand curve will shift left/right

Demand shifters -

1) Changes in income - normal goods and inferior goods

normal goods: direct relationship between income + demand; buy ↑ as income ↑; good food/clothing, housing

inferior goods: buy ↓ as income ↑; inverse relationship; shitty, canned food, cheap clothes

2) Price of related goods - complements or substitutes

complements: 2 goods used together; inverse relationship; e.g. milk + cereal, printers + toner

substitutes: Goods that can be substituted; direct relationship; e.g. pizza hut/dominoes, coke/pepsi

3) Changes in tastes and preferences
- styles in/out of fashion
- seasons
- new information about a good

4) Future expectations - consumption today depend on what we think the price is tomorrow

5) Number of buyers - ↑ individual buyers = ↑ market demand
- age, immigration, war affect no. of buyers

Supply

Law of Supply - all things equal, direct relationship between (price and quantity supplied)

Same as Demand

Supply schedule - table,
Supply curve - graph,

Same as market demand

Market supply - instead of "demanded by buys", now "supplied by sellers"

Shifts in Supply - Movement along supply curve caused by change in price of good
Direct relationship
caused by non-price factors
entire supply curve will shift left/right

Supply Shifters -

1) Cost of Inputs - inverse relationship between input costs and supply curve
resources used in production process

2) Technology - as tech ↑, supply ↑, direct relationship

3) Taxes tax ↑ supply ↓
or Subsidy subsidy ↑ supply ↑
opposite of tax. government pays sellers to produce goods

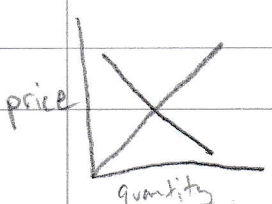
4) No. of sellers sellers ↑ supply ↑

5) Price expectations inverse relationship between today's supply and tomorrow's expected price

Supply and Demand

Price determined by market forces of supply and demand simultaneously
Law - price of any good will adjust to bring quantity supplied into balance + quantity demanded

Graph



Equilibrium point - intersection of supply and demand
" price - price that quantity supplied == quantity demanded
" quantity - numerical quantity (supplied & demanded) at " price