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The Market Forces of Supply and Demand

MARKETS AND COMPETITION

- Supply and demand are the two words that economists use most often.
- Supply and demand are the forces that make market economies work.
- Modern microeconomics is about supply, demand, and market equilibrium.

What Is a Market?

- A *market* is a group of buyers and sellers of a particular good or service.

- The terms supply and demand refer to the behavior of people . . . as they interact with one another in markets.

What Is a Market?

- Buyers determine *demand.*

- Sellers determine *supply.*

What Is Competition?

- A *competitive market* is a market in which there are many buyers and sellers so that each has a negligible impact on the market price.

What Is Competition?

- Competition: Perfect and Otherwise
  - Perfect Competition
    - Products are the same
    - Numerous buyers and sellers so that each has no influence over price
    - Buyers and Sellers are price takers
  - Monopoly
    - One seller, and seller controls price

What Is Competition?

- Competition: Perfect and Otherwise
  - Oligopoly
    - Few sellers
    - Not always aggressive competition
  - Monopolistic Competition
    - Many sellers
    - Slightly differentiated products
    - Each seller may set price for its own product

DEMAND

- *Quantity demanded* is the amount of a good that buyers are willing and able to purchase.
- Law of Demand
  - The *law of demand* states that, other things equal, the quantity demanded of a good falls when the price of the good rises.

The Demand Curve: The Relationship between Price and Quantity Demanded

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

Catherine's Demand Schedule

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

The Demand Curve: The Relationship between Price and Quantity Demanded

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

Figure 1 Catherine's Demand Schedule and Demand Curve

Price of Ice-Cream Cone	Quantity of Cones Demanded
$0.00	12
0.50	10
1.00	8
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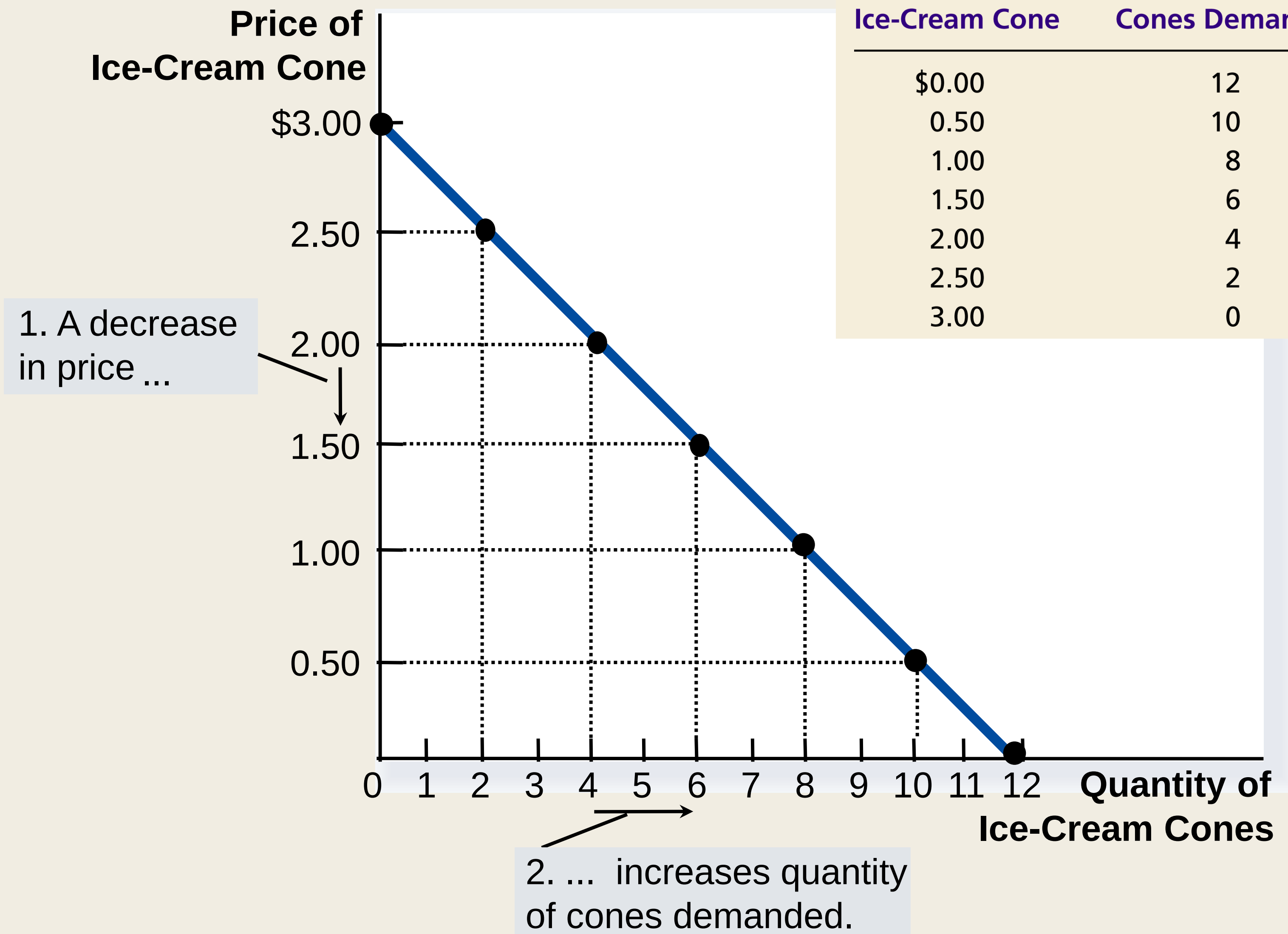
2.50	2
3.00	0



Market Demand versus Individual Demand

- Market demand refers to the sum of all individual demands for a particular good or service.
- Graphically, individual demand curves are summed horizontally to obtain the market demand curve.

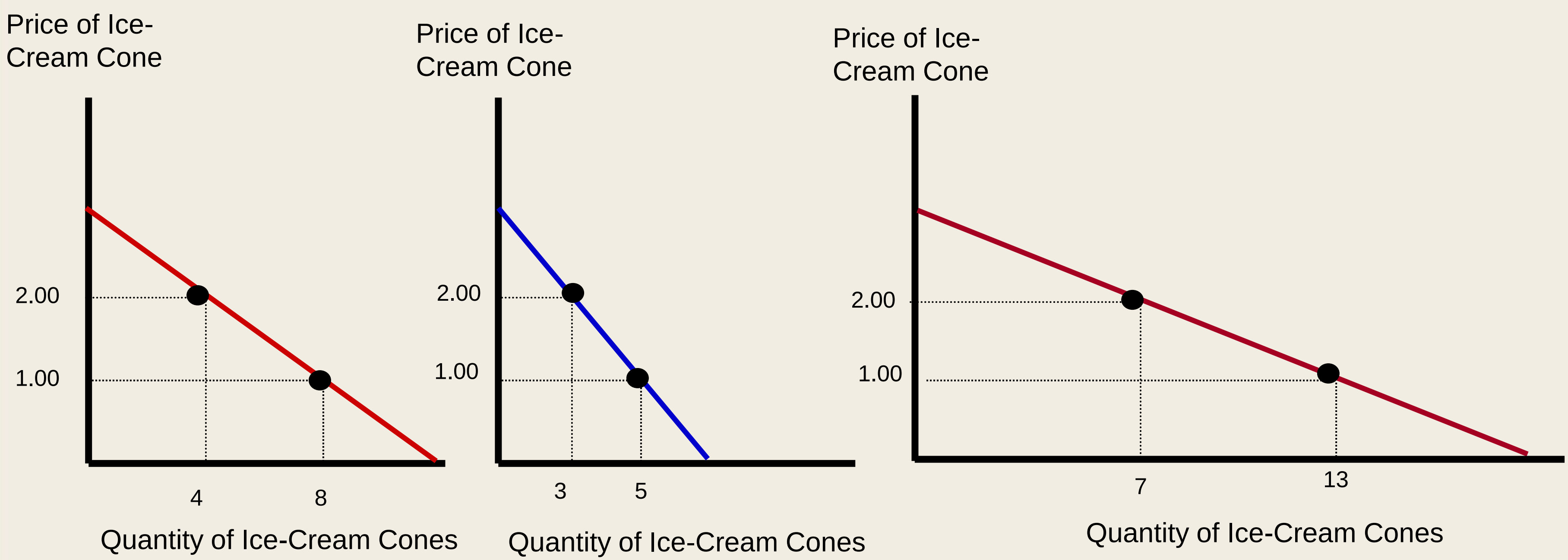
The Market Demand Curve

When the price is $2.00, Catherine will demand 4 ice-cream cones.

When the price is $2.00, Nicholas will demand 3 ice-cream cones.

The market demand at $2.00 will be 7 ice-cream cones.

Catherine's Demand + Nicholas's Demand = Market Demand



When the price is $1.00, Catherine will demand 8 ice-cream cones.

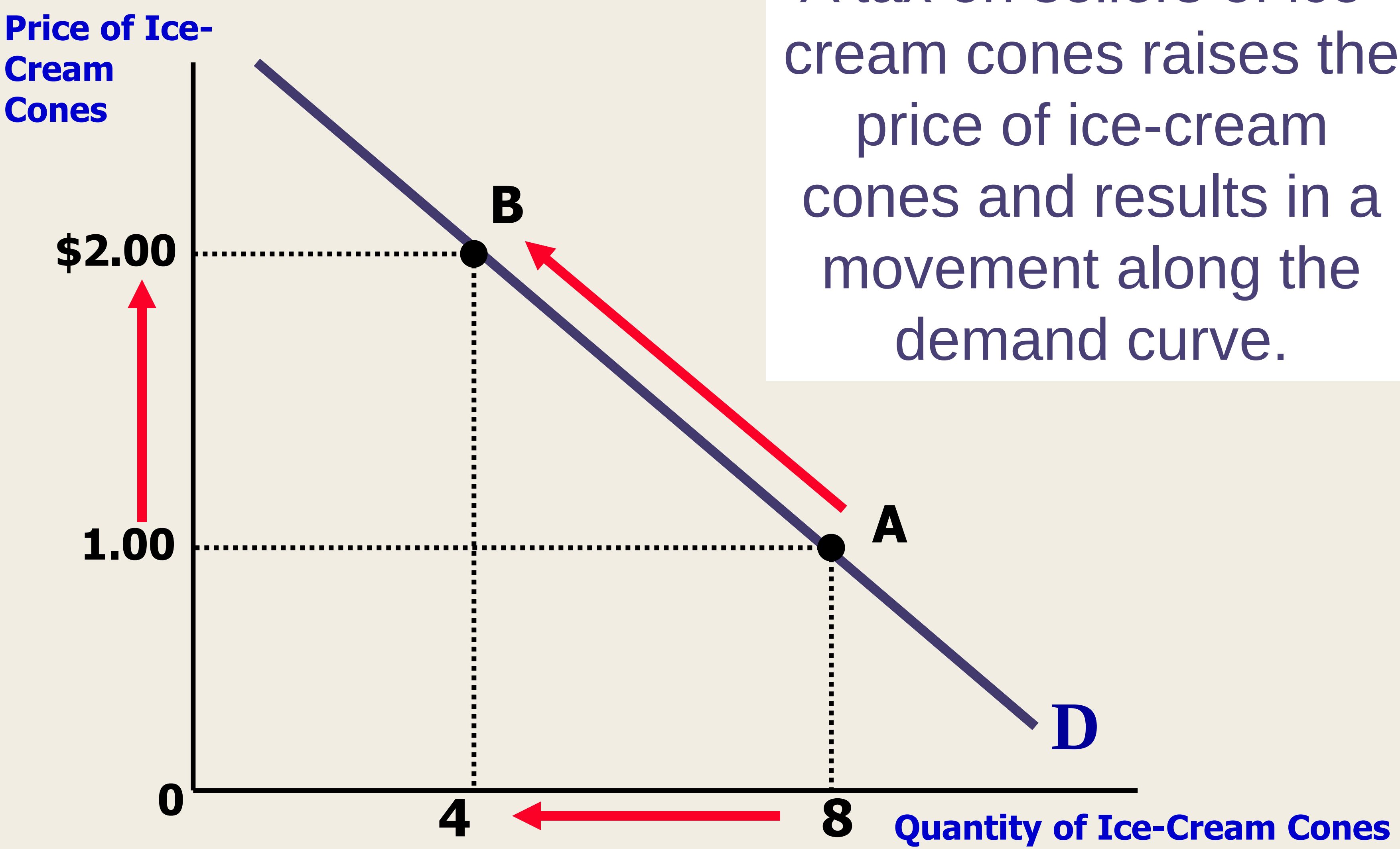
When the price is $1.00, Nicholas will demand 5 ice-cream cones.

The market demand at $1.00, will be 13 ice-cream cones.

Shifts in the Demand Curve

- Change in Quantity Demanded
  - Movement along the demand curve.
  - Caused by a change in the price of the product.

Changes in Quantity Demanded



A tax on sellers of ice-cream cones raises the price of ice-cream cones and results in a movement along the demand curve.

Shifts in the Demand Curve

- Consumer income
- Prices of related goods
- Tastes
- Expectations
- Number of buyers

Shifts in the Demand Curve

- Change in Demand
  - A shift in the demand curve, either to the left or right.
  - Caused by any change that alters the quantity demanded at every price.

Figure 3 Shifts in the Demand Curve