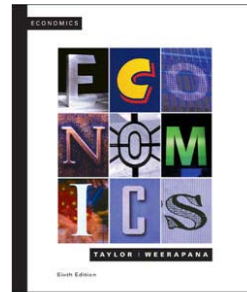


Economics 202
Principles Of Macroeconomics

Professor Yamin Ahmad

Lecture 3: Review of
Demand and Supply

- Demand
- Supply



Markets and Prices

- A *market* is any arrangement that enables buyers and sellers to get information and do business with each other.
- A **competitive market** is a market that has many buyers and many sellers so no single buyer or seller can influence the price.
- The *money price* of a good is the amount of money needed to buy it.
- The **relative price** of a good—the ratio of its money price to the money price of the next best alternative good—is its *opportunity cost*.

Note: These lecture notes are incomplete without having attended lectures

Demand

Definition:

Q^D = the amount of good or service that people reasonably desire to purchase (can afford) during a particular time at a particular price

Note: These lecture notes are incomplete without having attended lectures

Demand

- Demand Curve and Demand Schedule
 - The term **demand** refers to the entire relationship between the price of the good and quantity demanded of the good.
 - A **demand curve** shows the relationship between the quantity demanded of a good and its price when all other influences on consumers' planned purchases remain the same.

Note: These lecture notes are incomplete without having attended lectures

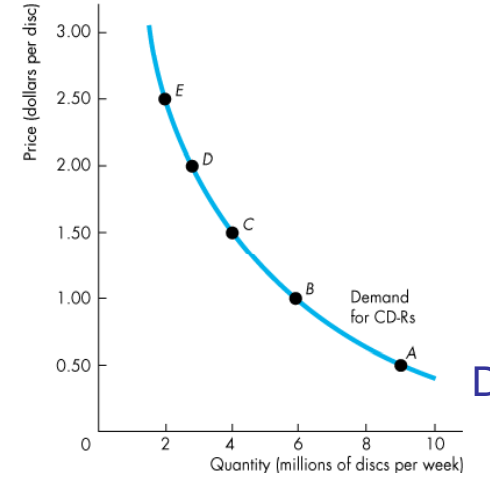
Example: CD-R Sales

<u>Price(P)</u>	<u>Quantity(Q^D)</u>
\$ 0.50	9
1.00	6
1.50	4
2.00	3
2.50	2

} Demand Schedule

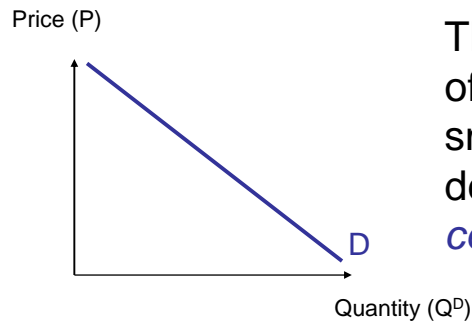
Note: These lecture notes are incomplete without having attended lectures

The Demand Curve



Note: These lecture notes are incomplete without having attended lectures

The "Law" of Demand



The higher the price of the good, the smaller the quantity demanded (Q^D), *ceteris paribus*

Note: These lecture notes are incomplete without having attended lectures

Demand

- The Law of Demand results from
 - a *substitution effect*
 - an *income effect*

Note: These lecture notes are incomplete without having attended lectures

Demand

- **Substitution effect** — when the relative price (opportunity cost) of a good or service rises, people seek substitutes for it, so the quantity demanded decreases.
- **Income effect** — when the price of a good or service rises relative to income, people cannot afford all the things they previously bought, so the quantity demanded decreases.

Note: These lecture notes are incomplete without having attended lectures

Changes in Demand

- When any factor that influences buying plans other than the price of the good changes, there is a **change in demand** for that good. The quantity of the good that people plan to buy changes at each and every price, so there is a new demand curve.
- When demand increases, the quantity that people plan to buy increases at each and every price so the demand curve shifts rightward.
- When demand decreases, the quantity that people plan to buy decreases at each and every price so the demand curve shifts leftward.

Note: These lecture notes are incomplete without having attended lectures

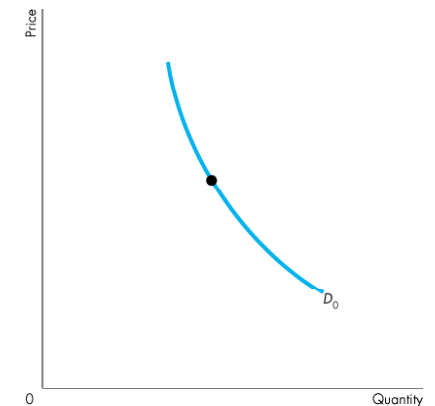
Shifts in the Demand Curve

- Income
- Price of substitutes
- Price of complements
- Population, tastes, weather
- Expected future prices
- Quality of the product

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Demand

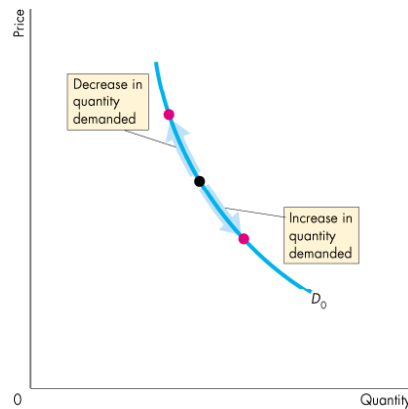
- A Change in the Quantity Demanded Versus a Change in Demand
 - This figure illustrates the distinction between a change in demand and a change in the quantity demanded.



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Movements along the Demand Curve

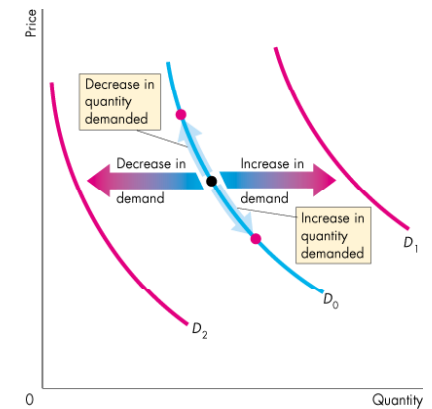
- When the price of the good changes and everything else remains the same, there is a change in the quantity demanded and a movement along the demand curve.



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Shifts in the Demand Curve

- When one of the other factors that influence buying plans changes, there is a change in demand and a shift of the demand curve.



Note: These lecture notes are incomplete without having attended lectures

2 Common Confusions

- Individual vs. Market Demand
- Movements along vs. Shifts in Demand curve

Note: These lecture notes are incomplete without having attended lectures

Quantity Supplied

Definition:

Q^S = the amount of good or service that suppliers will be willing and able to sell during a particular time at a particular price, *ceteris paribus*

- **Resources** and **technology** determine what it is possible to produce. Supply reflects a decision about which technologically feasible items to produce.

Note: These lecture notes are incomplete without having attended lectures

Supply

- Supply Curve and Supply Schedule
 - The term **supply** refers to the entire relationship between the quantity supplied and the price of a good.
 - The **supply curve** shows the relationship between the quantity supplied of a good and its price when all other influences on producers' planned sales remain the same.

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Example: Supply of CD-Rs

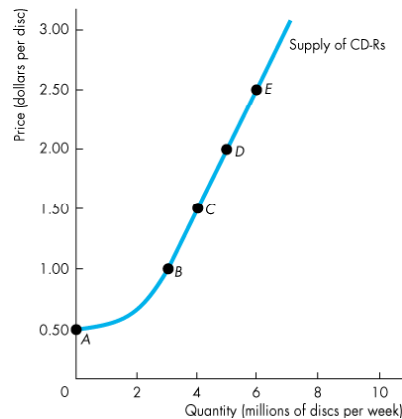
<u>Price(P)</u>	<u>Quantity(Q^S)</u>
\$ 0.50	0
1.00	3
1.50	4
2.00	5
2.50	6

} Supply Schedule

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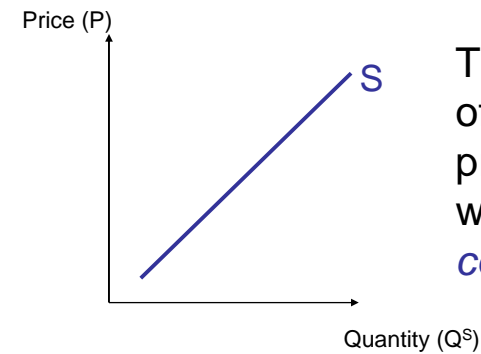
Supply Curve of CD-Rs

- A rise in the price, other things remaining the same, brings an increase in the quantity supplied and a movement along the supply curve



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The “Law” of Supply



The higher the price of the good, the more producers will be willing to supply (Q^S), *ceteris paribus*

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A Change in Supply

- When any factor that influences selling plans other than the price of the good changes, there is a **change in supply** of that good. The quantity of the good that producers plan to sell changes at each and every price, so there is a new supply curve.
- When supply increases, the quantity that producers plan to sell increases at each and every price so the supply curve shifts rightward.
- When supply decreases, the quantity that producers plan to sell decreases at each and every price so the supply curve shifts leftward.

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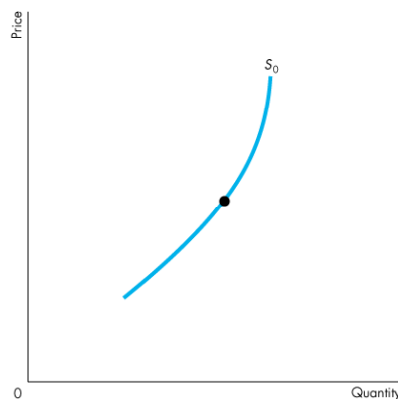
Shifts in the Supply Curve

- Price of inputs
- Price of other goods produced
- Expected future prices
- # Suppliers
- Technology

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Supply

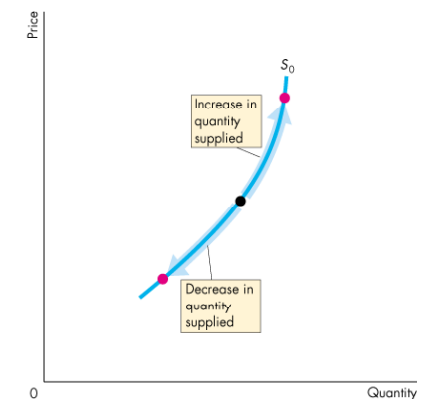
- A Change in the Quantity Supplied Versus a Change in Supply
 - Figure illustrates the distinction between a change in supply and a change in the quantity supplied.



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Supply

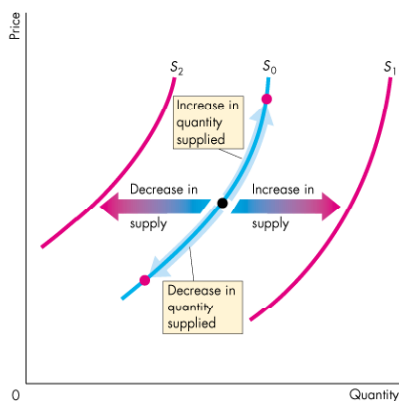
- When the price of the good changes and other influences on selling plans remain the same, there is a change in the quantity supplied and a movement along the supply curve.



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Supply

- When one of the other factors that influence selling plans changes, there is a *change in supply* and a shift of the supply curve.



Note: These lecture notes are incomplete without having attended lectures

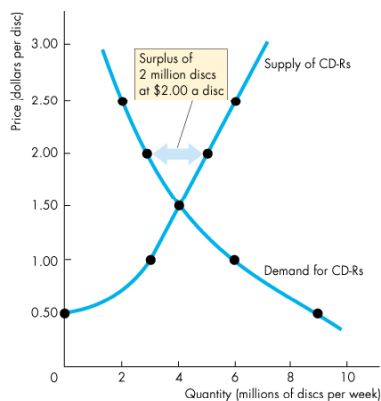
Market Equilibrium

- Equilibrium* is a situation in which opposing forces balance each other. Equilibrium in a market occurs when the price balances the plans of buyers and sellers.
- The **equilibrium price** is the price at which the quantity demanded equals the quantity supplied.
- The **equilibrium quantity** is the quantity bought and sold at the equilibrium price.
- Price adjusts when plans don't match.

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Market Equilibrium

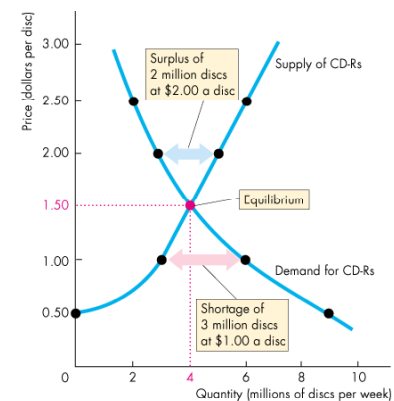
- Figure illustrates the equilibrium price and equilibrium quantity in the market for CD-Rs.
- If the price of a disc is \$2, the quantity supplied exceeds the quantity demanded and there is a surplus of discs.



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Market Equilibrium

- If the price of a disc is \$1, the quantity demanded exceeds the quantity supplied and there is a shortage of discs.
- If the price of a disc is \$1.50, the quantity demanded equals the quantity supplied and there is neither a shortage nor a surplus of discs.



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Market Equilibrium

Definition:

A Price-Quantity Combination at which
there is no shortage or surplus

$$S=D$$

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The End

Note: These lecture notes are incomplete without having attended lectures