

Chapter 1

Market:

- Is defined by the specific product being bought and sold, a particular location, and a point in time.

Four Key Assumptions Underlying The Supply and Demand Model:

- We focus on supply and demand in a single market
- All goods sold in the market are identical
- All goods sold in the market sell for the same price and everyone has the same information
- There are many producers and consumers in the market

Supply:

- The combined amount of a good that all producers in a market are willing to sell

Demand:

- The combined amount of a good that all consumers are willing to buy

Commodities:

- Products traded in markets in which consumers view different varieties of the good as essentially interchangeable

All else equal, the more people there are in a market, the greater the quantity of the good desired.

Substitute:

- A good that can be used in place of another good

When the price of a substitute good falls, consumers will want to buy more of it and less of the initial good

Complements:

- A good that is purchased and use in combination with another good

When the price of a complement falls, consumers will want to buy more of it and more of the initial good

Demand Curve:

- The relationship between the quantity of a good that consumers demand and the good's price, holding all other factors constant

A demand curve is drawn with the assumption that there is no change in any of the other factors – such as consumers' incomes, tastes, or the prices of other goods

The demand curve is downward sloping, saying that, all else equal, the lower the price of a good, the more of it consumers will buy

Inverse Demand Curve:

- A demand curve written in the form of price as a function of quantity demanded

Demand Choke Price:

- The price at which no consumer is willing to buy a good and quantity demanded is zero; the vertical intercept of the inverse demand curve

One thing the inverse demand curve makes clear is that no consumer will be willing to buy tomatoes at a price greater than \$5 per pound, because the vertical intercept of the inverse demand curve is \$5 per pound

Price is the only factor that will cause movement along a supply or demand curve, any other factor will cause a shift in the respective curve

Change in Quantity Demanded:

- A movement *along* the demand curve that occurs as a result of a change in the good's price

Change in Demand:

- A shift of the entire demand curve caused by a change in a determinant of demand other than the good's own price

Production Technology:

- The processes used to make, distribute, and sell a good

Factors that influence Supply:

- Price, suppliers' costs of production, The number of sellers, Sellers' outside options

Supply Curve:

- The relationship between the quantity supplied of a good and the good's price, holding all other factors constant

The simple intuition behind the upward slope of most supply curves is that, given their costs of production and other non price factors, firms want to supply a greater quantity to the market when prices are high. For example, many firms experience increasing costs of production as their output rises. When this is the case, they need to earn a higher price in the market in order to induce them to produce more output

Inverse Supply Curve:

- A supply curve written in the form of price as a function of quantity supplied

Supply Choke Price:

- The price at which no firm is willing to produce a good and quantity supplied is zero; the vertical intercept of the inverse supply curve

Change in Quantity Supplied:

- A movement along the supply curve that occurs as a result of a change in the goods price

Change in Supply:

- A shift of the entire supply curve caused by a change in a determinant of supply other than the good's own price

Market Equilibrium:

- The point at which the quantity demanded by consumers exactly equals the quantity supplied by producers

Equilibrium Price:

- The only price at which quantity supplied equals quantity demanded

We can find equilibrium price by setting the Q_s and Q_d equations equal to each other since that holds true at equilibrium