Exam 1: Chapter 3 - Where Do Prices Come From: The Interaction of Demand and Supply

book notes

- Because ecomic models rely on assumptions, the models are simplifications of reality. The assumptions may, sometimes, not seem to describe exactly the economic situation being analyzed. Like the model of demand and supply which assumes that we are analyzing a perfectly competitive market.
- In a **perfectly competitive market**, the are many buyers and sellers, all the products sold are identical, and there are no barriers to new firms entering the market. These assumptions are very restrictive and apply exactly to only a few markets.
- Experience has shown, the model of demand and supply can be very useful in analyzing markets where competition among sellers is intense, even if there are relatively few sellers.

- The Demand Side of the Market

- The most successful businesses are the ones that respond best to consumer demand.
- The main factor in most consumer decisions is the price of the product.
- When we discuss demand, we are considering not what a consumer wants to buy but what the consumer is both willing and able to buy.

• Demand Schedules and Demand Curves

- Tables show that the relationship between the price of a product and the quantity of the product demanded are called **demand schedules.**
- The amount of a good or service that a consumer is willing and able to purchase at a given price is referred to as the **quantity demanded.**
- A **demand curve** is a curve that shows the relationship between the price of a product and the quantity of the product demanded
- **Market demand** is the demand by all the consumers of a given good or service
- Buyers demand a larger quantity of a product as the price falls because the product becomes less expensive relative to other products and because they can afford to buy more at a lower price.

• The Law of Demand

- The inverse relationship between the price of a products and the quantity of the product demanded is called the **law of demand**

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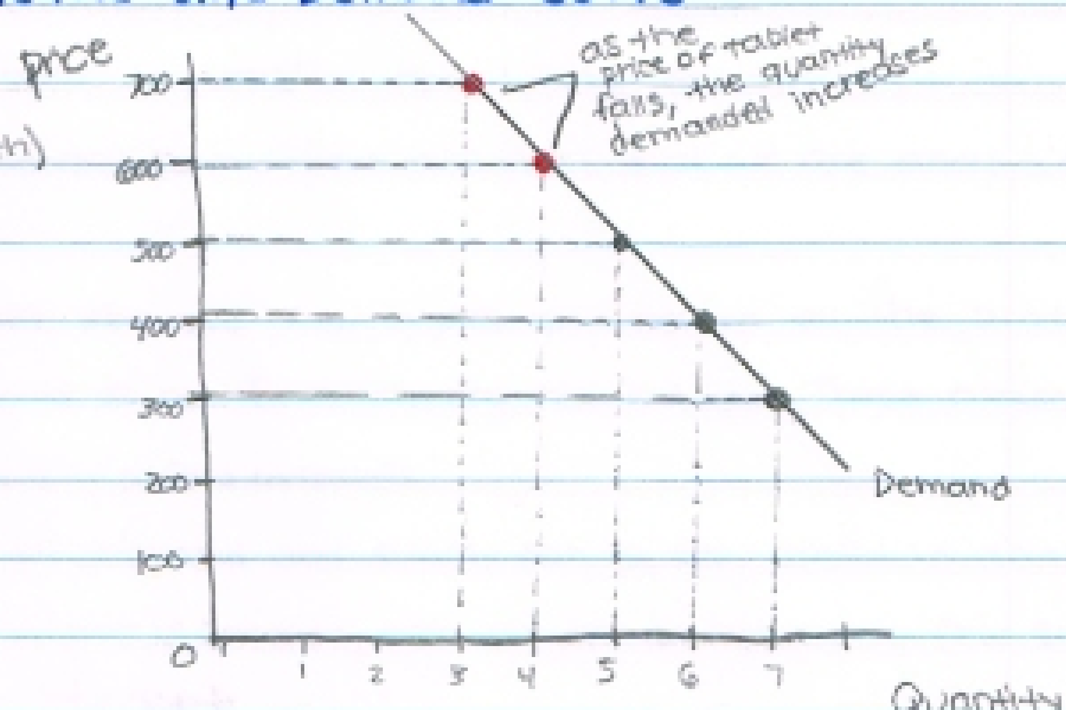
Figures

- **Figure 3.1 A Demand Schedule and Demand Curve**

Demand Schedule

Price ($ per tablet)	Quantity (millions of tablets per month)
$ 700	3
$ 600	4
$ 500	5
$ 400	6
$ 300	7

* number of tablet computers consumers would be willing to buy over the course of a day at 5 different prices



- points from table plotted as a demand curve
- demand curve shows market demand
- slopes down because consumers will buy more as the price falls