

Markets – any arrangement that enables buyers and sellers to get information and to do business with each other

Some Markets are physical places i.e. NY stock exchange or a wholesale fish market

Competitive market – a market that has many buyers and many sellers, so no single buyer or seller can influence the price

Money Price – the number of dollars that must be given up in exchange for it

Relative price – the ratio of one price to another; is also the opportunity cost

- Divide the money price of a good by the money price of a “basket” of all goods (called a price index); tells us the opportunity cost of the good in terms of how much of the “basket” we must give up to buy it

Demand – something you want, can afford, and plan to buy; causes us to make a decision about our wants; refers to the entire relationship between the price of a good and the quantity demanded of it, holding all other influences on consumers constant

Wants – the unlimited desires or wishes that people have for goods and services

Quantity demanded – the amount that consumers plan to buy during a given time period at a particular price; measured as an amount per unit of time; refers to a point on a demand curve – the quantity demanded

Law of demand – “Other things remaining the same, the higher the price of a good, the smaller is the quantity demanded; and the lower the price of a good, the greater is the quantity demanded.”

The relationship is negative or inverse

Higher price reduces the quantity because of substitution effect and income effect:

Substitution effect – when the price of a good rises, other things remaining the same, its relative price rises. Each good has substitutes – other goods that can be used in its place. When the price rises, consumers switch to a substitute good.

Income effect – when a price rises, other things remaining the same, the price rises relative to income. When prices rise and their income stays the same, people need decrease intake of some goods

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 (slopes downward) D for down

Can also look at it as marginal benefit – the willingness and ability to pay for a good

Demand schedule – lists the quantities demanded at each price when all the other influences on consumers’ planned purchases remain the same.

Change in demand – when any factor that influences buying plans changes, other than the price of the good

Six factors cause changes in demand:

Prices of related goods

Substitute In consumption – a good that can be used in place of another good

i.e. hot chocolate for coffee; if coffee is too expensive, person might switch to hot chocolate

Complement In consumption– a good that is used in conjunction with another good

i.e. burgers and fries; people usually eat burgers and fries together

Expected future prices

If a good is expected to increase in price in the future, the demand will increase now as people stock up on that good

Income

When income increases, there's a higher demand for goods

When income decreases, there's a lower demand for goods

Normal good – a good in which demand increases as income increases

Inferior good – good in which demand decreases as income increases

Expected future income and credit

When expected future income increases or credit becomes easier to get, demand increases

Population

The larger the population, the greater the demand

The age group proportion of a population also determines what goods are in a higher demand

Preferences

Determine the value that people place on each good and service

Depend on such things as weather, information, and fashion

The Law of Demand: The quantity of energy bars demanded	
Decreases if: (graph shifts left)	Increases if: (graph shifts right)
The price of an energy bar rises	The price of an energy bar falls
Changes in Demand: The demand for energy bars	
Decreases if: (graph shifts left)	Increases if: (graph shifts right)
The price of a substitute falls	The price of a substitute rises
The price of a complement rises	The price of a complement falls
The expected future price of an energy bar falls	The expected future price of an energy bar rises
Income falls	Income rises
Expected future income falls or credit become harder to get	Expected future income rises or credit becomes easier to get
The population decreases	The population increases

Change in the quantity demanded – a movement along the demand curve

Movement along the demand curve – if the price of the good changes, but no other influence changes

Shift of the demand curve – if the price remains constant, but some other influence changes

Ex. If more people work out at the gym, then they will buy more energy bars

Shifts to right for a demand increase; shifts to left for a demand decrease

Producer's Side

Supply – when a firm has the resources and technology to produce a good or service, can profit from producing it, and plans to produce it and sell it; refers to the entire relationship between the price of a good and the quantity supplied of it holding all other influences on producers constant

Resources and technology – the constraints that limit what is possible in production

Quantity supplied – the amount that producers plan to sell during a given time period

Law of supply – “Other things remaining the same, the higher the price of a good, the greater is the quantity supplied; and the lower the price of a good, the smaller is the quantity supplied.”

Higher price leads to an increase in quantity supplied because marginal cost increases

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; slopes upward → **sUP**ply

Can also be viewed as a minimum supply price curve, which shows the lowest price at which someone is willing to sell

Substitutes in production – goods that can be produced by using the same resources

Complements in production – goods that must be produced together

Change in supply – when any factor that influences selling plans other than the price of the good changes

Prices of factors of production

- If the price of a factor of production rises, the lowest price that a producer is willing to accept for that good rises, → supply decreases
- If price of jet fuel increases, supply of air travel will decrease

Prices of related goods produced

- Ex: if the price of energy drinks rises, firms switch production from bars to drinks. Supply of energy bars decreases