

Demand and Supply

Markets and Competition

- ✓ A **market** is a group of buyers and sellers of a particular product.
- ✓ A **competitive market** is one with many buyers and sellers, each has a negligible effect on price.
[i.e. Walmart or Starbuck will not change price for individual buyer.]
- ✓ A **perfectly competitive** market: All goods exactly the same, buyers & sellers so numerous that no one can affect market price.

Demand

- ✓ **Quantity Demand**
The amount of the good that buyers are willing and able to purchase
- ✓ **Law of Demand**
The claim that the quantity demanded of a good falls when the price of the good rises when other things are equal.
- ✓ **Demand Schedule**
A table that shows the relationship between the price of a good and the quantity demanded
- ✓ **Demand Curve**
“quantity demands are dots, many data dots [from different buyers, prices] will form a curve, shows how price affects quantity demand”

Demand Curve: price & non-price determinants

Price	...causes a movement along the <i>D</i> curve
# of buyers	...shifts the <i>D</i> curve
Income	...shifts the <i>D</i> curve
Price of related goods	...shifts the <i>D</i> curve
Tastes	...shifts the <i>D</i> curve
Expectations	...shifts the <i>D</i> curve

Explanation & Examples

- Increase in # of buyers increases quantity demanded at each price, shifts *D* curve to the right.
- Demand for a **normal good** is positively related to income.
Increase in income shifts its *D* curve to the right;
- Demand for an **inferior good** is negatively related to income.
Increase in income shifts its *D* curve to the left;

[Inferior good is a type of good whose demand declines when income rises. Conversely, demand for them will increase when income falls. Can you think of any goods you would use less if you suddenly got a wage raise? Maybe you'd stop buying cheap frozen dinners. It is not based on brand, quality. Someone's normal good can be inferior good for another.]
- Increase in the price of a **substitute** of the good causes an increase in demand for the good. [i.e. Coke and Pepsi]

- Increase in the price of a **complement** of the good causes a decrease in demand for the good. [i.e. computers and software]
 - Anything that causes a shift in tastes toward a good will increase demand for that good and shift its D curve to the right.
 - Expectations affect consumers' buying decisions.
[i.e. if you expect income goes up, demand for eat out may increase.]
- ★ Price always on y[vertical] axis, demand always on x[horizontal] axis.

Supply

✓ Quantity Supply

The amount that sellers are willing and able to sell.

✓ Supply Curve

“quantity supply are dots, many data dots [from different sellers, prices] will form a curve, shows how price affects quantity supply”

✓ Supply Schedule

A table that shows the relationship between the price of a good and the quantity supplied.

✓ Law of Supply

The claim that the quantity supplied of a good rises when the price of the good rises when other things are equal.