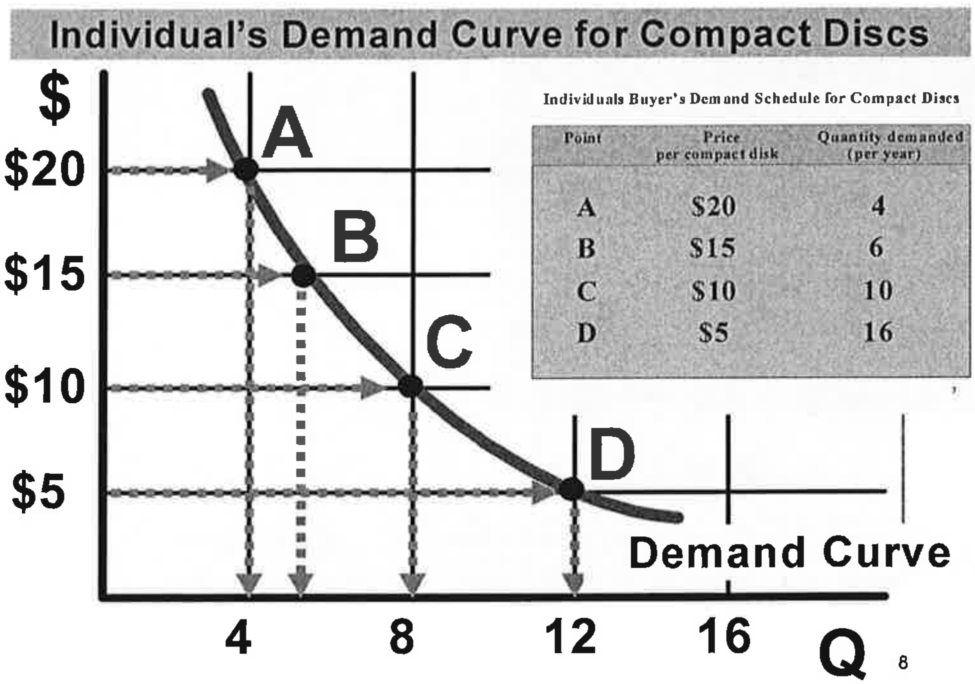
Ch. 3 – Market Demand and Supply

Law of Demand – an inverse relationship between the price of a good and the quantity buyers are willing to purchase (ceteris paribus).

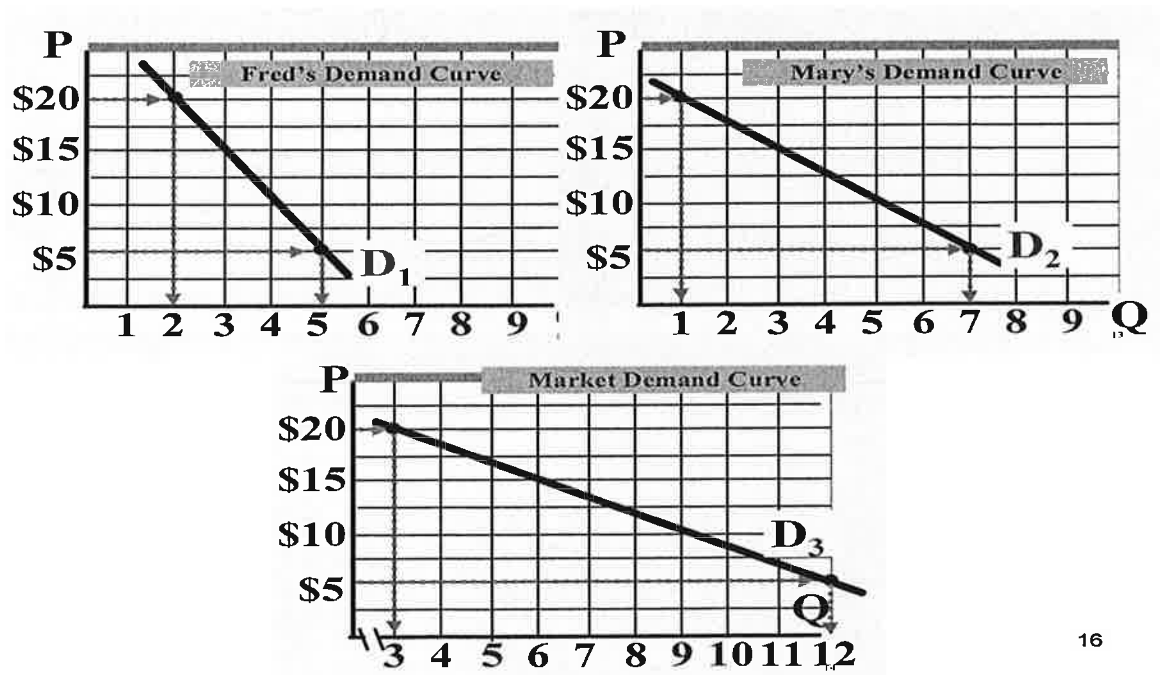
EX. As the $ of a good/service decreases the demand increases
As the $ of a good/service increases the demand decreases



Point	Price per compact disk	Quantity demanded (per year)
A	$20	4
B	$15	6
C	$10	10
D	$5	16

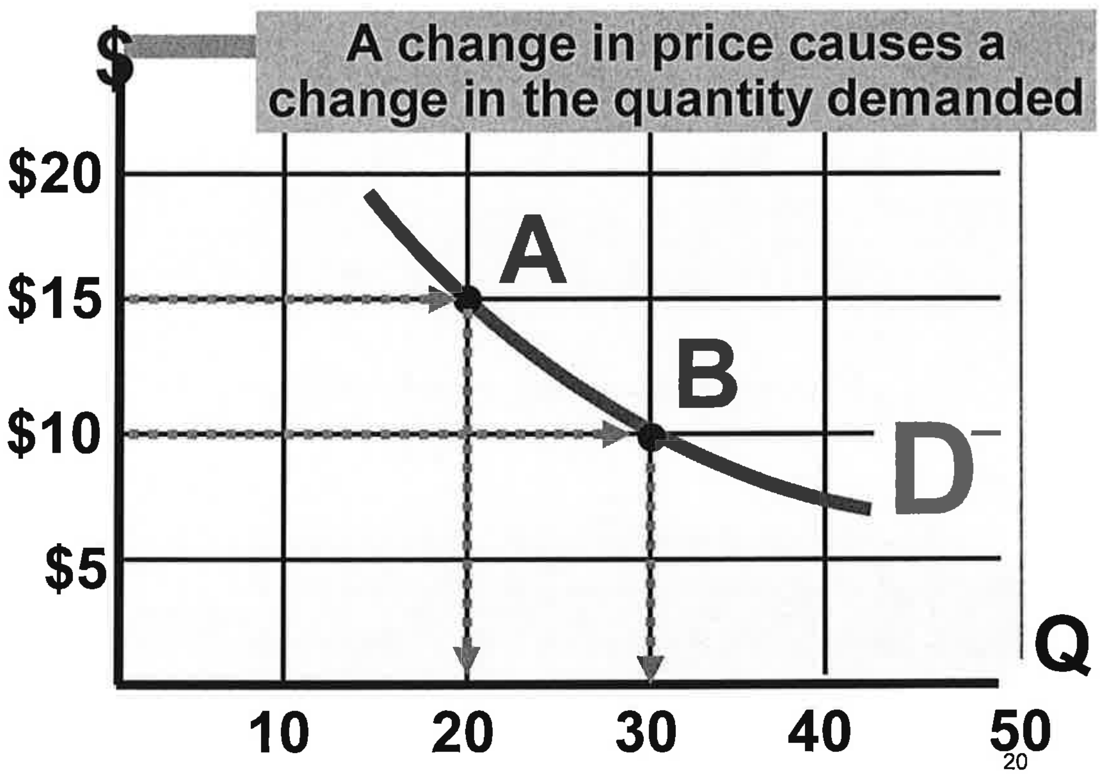
Market Demand –
- demand for an entire market (neighborhood, community, region, state; age group; gender; etc.)

EX.



A change in price does not shift the entire curve, there is simply movement along the curve.

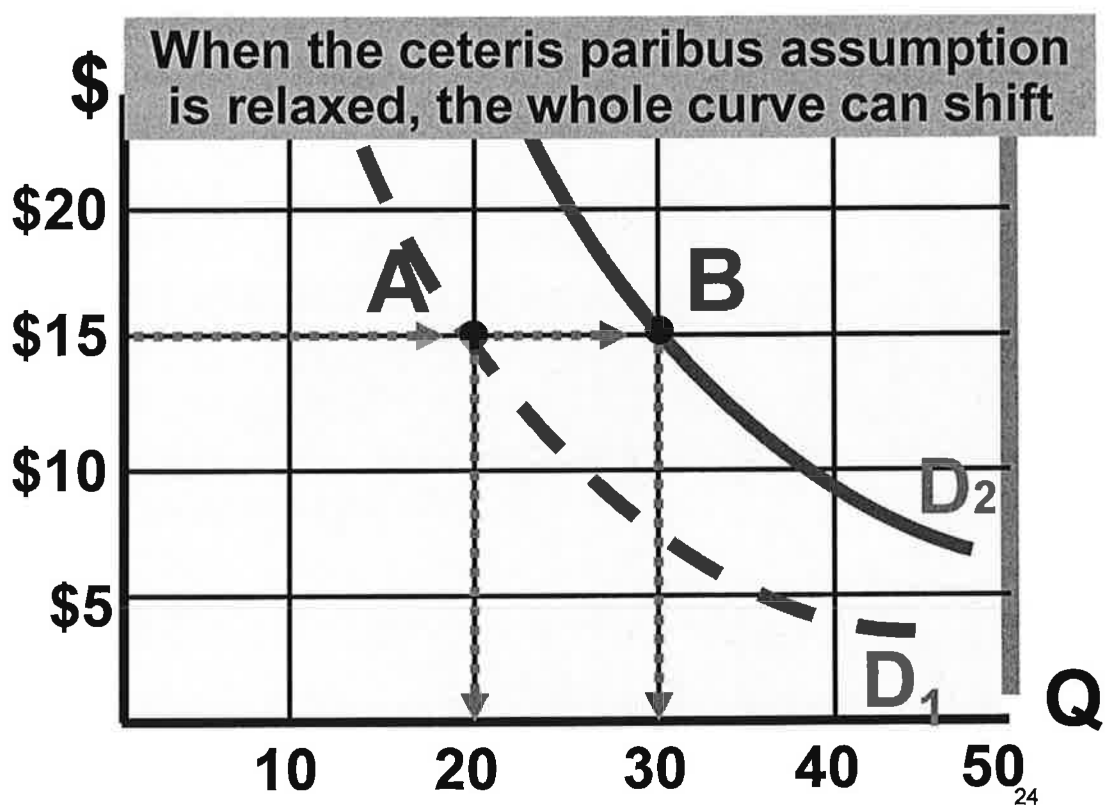
EX. If the price decreased from $15 to $10, what would have happened to the quantity demanded?



Changes in Demand –

- Non-price determinants (leads to shifts in the demand curve)

1. number of buyers change
2. change in taste/preference
3. income changes
   a. normal goods – any good where there is a direct relationship between changes in income and demand
   b. inferior goods – an inverse relationship between changes in income and demand
4. changes in future expectations
5. prices of related goods
   a. substitute goods – goods that can be replaced by other goods that are the same or similar
   b. complimentary goods - goods that used in combination with other goods and are affected as such



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DETERMINANTS OF DEMAND

TASTES AND PREFERENCES	INCOME	BUYER EXPECTATIONS	NUMBER OF BUYERS (population)	PRICES OF RELATED GOODS
The partiality of consumers for specific goods and services creates a demand for them	When people have the income to purchase the goods and services they desire, their wants become effective demand	Consumer expectations lead to a change in the quantities demanded	The larger the population size of the market, the larger the demand for each good and service	*Substitutes* and *compliments* can change the quantity demanded of a good

1. Mr. Hyper always purchases a carton of cream when he buys a pound of coffee.

2. Mr. Sweet-tooth has a craving for sugar.

3. Because of the "Baby Boom" in the 1950s, there was an increased demand for children's clothes.

4. Due to an increase in the price of coffee, some consumers are buying tea.

5. Ms. Fashion has enough money to buy a fur coat.

Name - ______________________________

BCC – Macroeconomics

Demand – Review

1. Create a demand schedule and then using that information illustrate the demand curve for CD's:

	Price - $	Quantity Demanded
A		
B		
C		
D		
E		
F		
G		

2. If a recording label increased the price of a CD, what would happen to the quantity demanded? Graph the change below.

3. If the average income increased in the Southern Tier, what would happen to the demand of CD's (ceteris paribus)? Illustrate in a graph below.

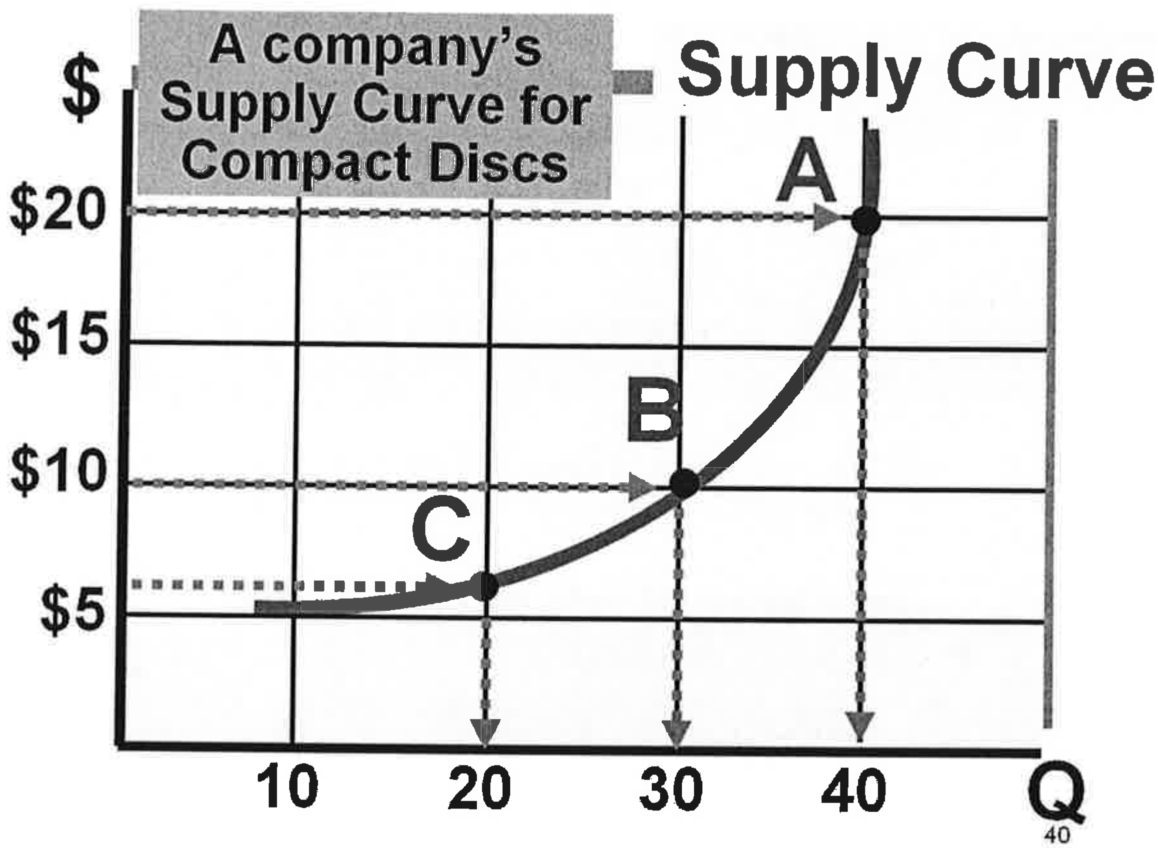
Which non-price determinant would be utilized in this case?

____

Ch. 3 – Market Demand and Supply

Law of Supply – a direct relationship between the price of a good and the quantity sellers are willing to offer for sale in a defined time period (ceteris paribus).

EX. As the $ of a good/service increases the supply increases
As the $ of a good/service decreases the supply decreases



Supply Demand –
- supply for an entire market (neighborhood, community, region, state; age group; gender; etc.)

EX.

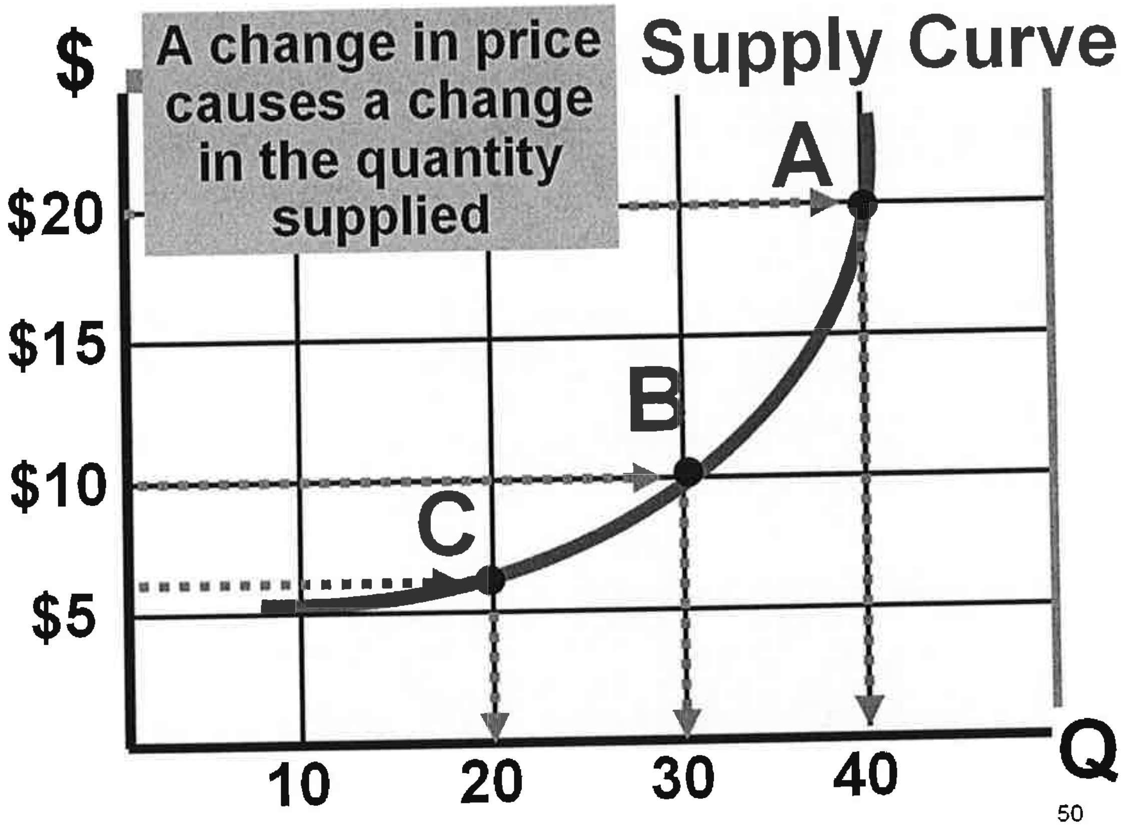
Market Supply Schedule for Compact Discs

Price	Super Sound		High Vibes		Total
$25	25	+	35	=	60
$20	20		30		50
$15	15		25		40
$10	10		20		30
$5	5		15		20

Draw your own market supply curve using the data provided.

A change in price does not shift the entire curve, there is simply movement along the curve.

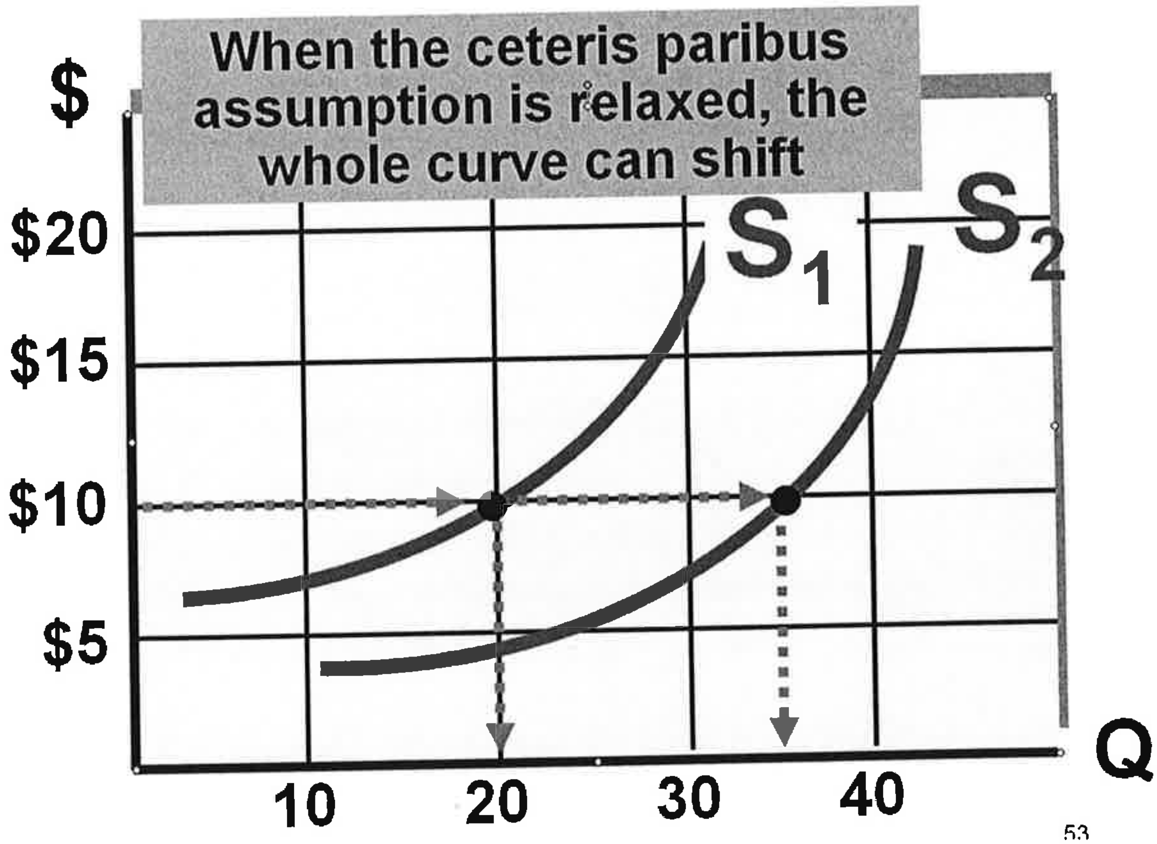
EX. If the price decreased from \$20 to \$10, what would have happened to the quantity supplied?



Changes in Supply –

- Non-price determinants (leads to shifts in the supply curve)

1. changes in the number of sellers
2. changes in technology
3. changes in factors of production (resource prices)
4. changes in taxes and subsidies
5. changes in producer expectations
6. changes in prices of other goods produced by other firms



Name - ______________________________

BCC – Macroeconomics

Supply – Review

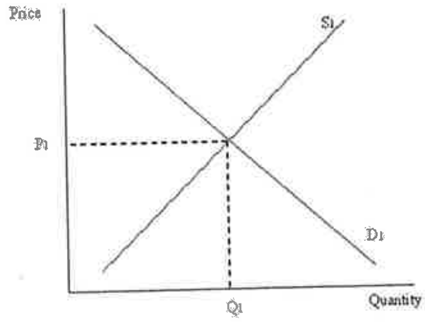
1. Create a supply schedule and curve for CD's:

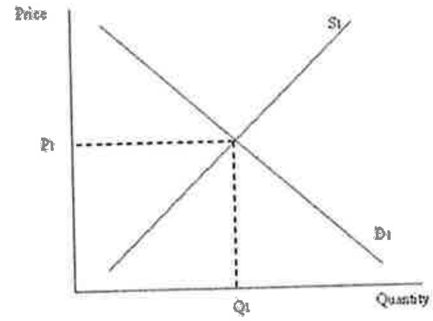
	Price - $	Quantity Supplied
A		
B		
C		
D		
E		
F		
G		

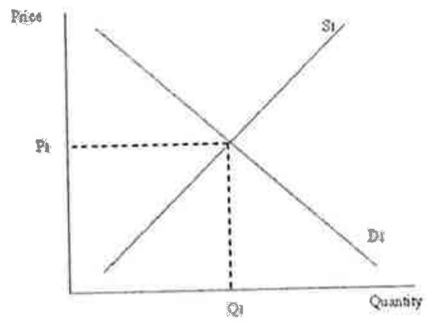
2. If a recording label decreased the price of a CD, what would happen to the quantity supplied? Graph the change above.

3. With the increase in buying individual songs off of the Internet, what would happen to the supply of CD's (ceteris paribus)? Illustrate in a graph below.

#7.


Price
S_1
P_1
D_1
Q_1
Quantity


Price
S_1
P_1
D_1
Q_1
Quantity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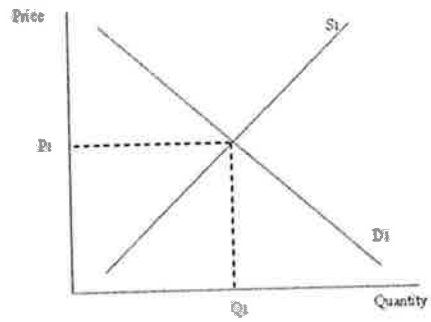
P_1
D_1
Q_1
Quantity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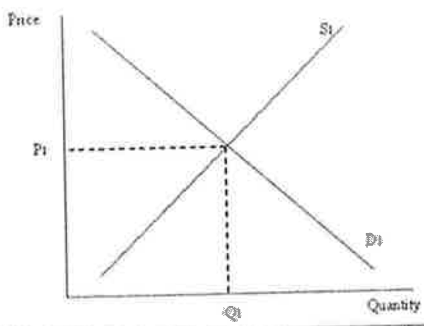
Quantity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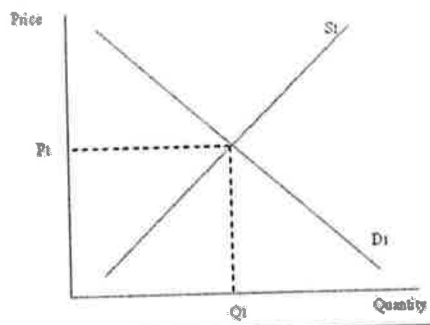
Quantity


Price
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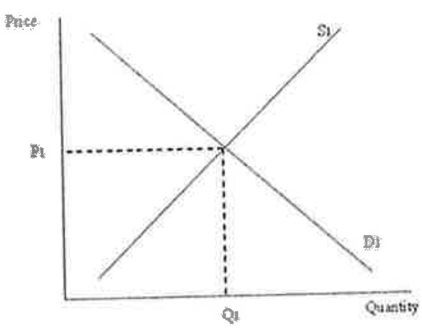
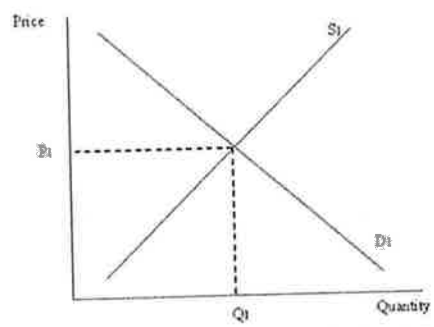
P_1
D_1
Q_1
Quantity

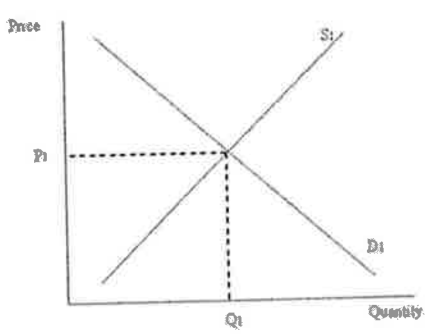
#9.

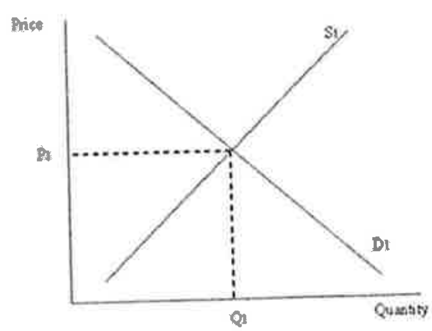

Price
S_1
P_1
D_1
Q_1
Quantity

#10.


Price
S_1
P_1
D_1
Q_1
Quantity

#11.


Price
S_1
P_1
D_1
Q_1
Quantity


Price
S_1
P_1
D_1
Q_1
Quantity

CH. 4 Markets in Action

HOW BUYERS AND SELLERS RESPOND TO CHANGES IN EQUILIBRIUM PRICE:

What can cause a change in market equilibrium (2)?

What can cause a shift in a demand curve (5)?

What can occur to the market equilibrium when there is a shift in demand?

What can cause a shift in a supply curve (5)?

What can occur to the market equilibrium when there is a shift in supply?

Can the laws of demand and supply be repealed/manipulated? HOW?

What is a price ceiling?	**What is a price floor?**
What are examples of price ceilings?	What are examples of price floors?
How are the results of a price ceiling counterproductive?	How are the results of a price floor counterproductive?

Market failures create the need for price ceilings and floors. What is a market failure? Provide and explain 4 examples.

MARKET FAILURES	EXPLANATION

Name - ____

BCC – Macroeconomics

Demand and Supply –

1. Fill in the demand & supply schedule for a product of your choice:

	Price - $	Quantity Demanded	Quantity Supplied
A			
B			
C			
D			
E			
F			
G			

2. Create a supply and demand curve using the information you provided above. Label the equilibrium. What is the equilibrium price? What is the equilibrium quantity?

3. A. What would occur if the market price of your good decreased below the equilibrium price?

   B. What would occur if the price of your good increased above the equilibrium price?

4. Explain and illustrate graphically the effect of the following situation:
   a. The need for computer engineers increases causing the salaries of these laborers to increase therefore increasing labor costs.
   b. Consumers expect that gas will be in short supply next month and will cause the price to rise sharply.
   c. The removal of trade restrictions on foreign goods coming into the country.
   d. An increase in the excise tax on cigarettes.