Lecture 6: Market Equilibrium, Demand and Supply Shifts

EC101 DD & EE / Manove Supply & Demand

Clicker Question

A firm is willing and able to produce and sell a larger quantity of goods at higher prices...

Market Equilibrium

- A system is in *equilibrium* when there is no tendency for change.
- A competitive market is in equilibrium at the market price if the quantity supplied equals the quantity demanded.
 - We will show that in this equilibrium, the price and quantity have no tendency to change.
 - At the market equilibrium, the price is called the *equilibrium price*, ...
 - ...and the quantities supplied and demanded are called the *equilibrium quantity*.

EC101 DD & EE / Manove Supply & Demand>Market Equilibrium

Example: The Market for Milk

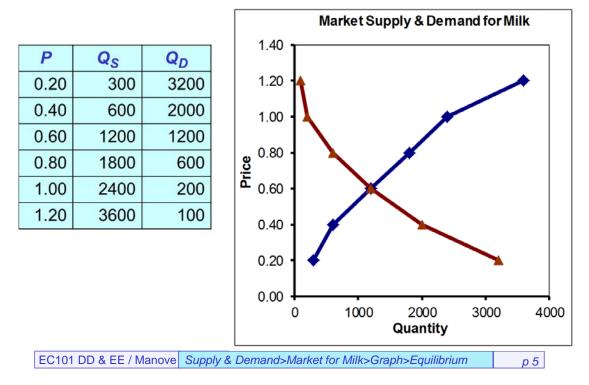
In the market for milk described previously, market supply and demand are as follows.

Price (\$)	Market Supply (Qts/day)	Market Demand (Qts/day)	
0.20	300	3200	
0.40	600	2000	
0.60	1200	1200	
0.80	1800	600	
1.00	2400	200	
1.20	3600	100	

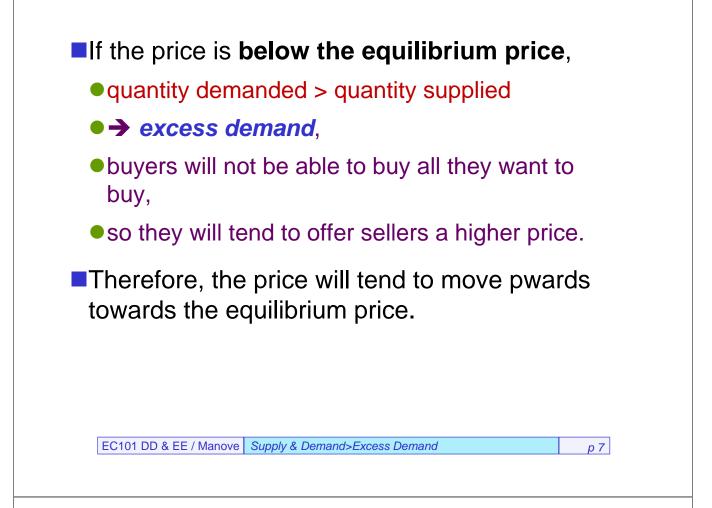
The market equilibrium is described by _____.

р3

Equilibrium in the Market for Milk on a Graph



Account towards Market Equilibrium If the price is above the equilibrium price, quantity supplied > quantity demanded, e excess supply. Sellers cannot sell as much as they want, so they will tend to offer buyers a lower price. Therefore, the price will tend to move downwards towards the equilibrium price.

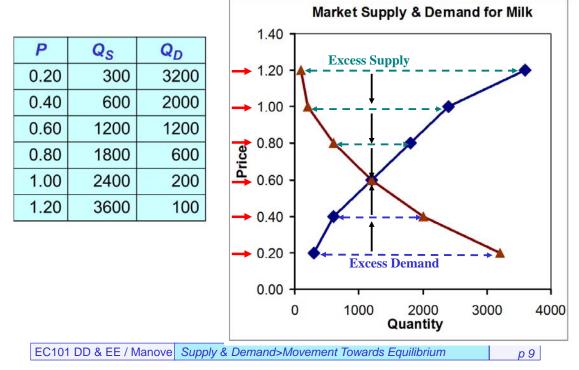


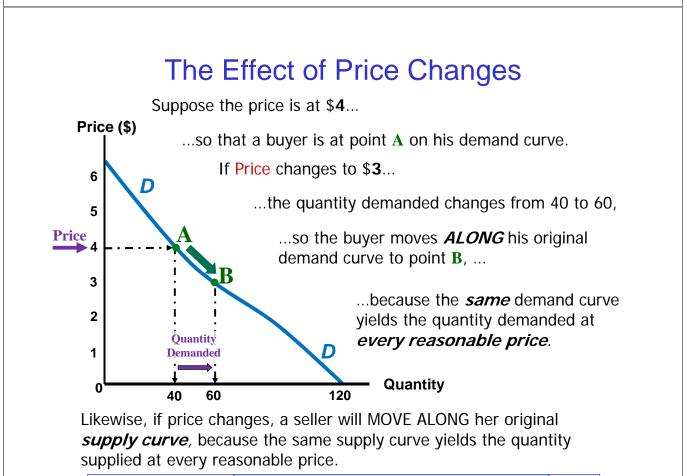
Clicker Question

Which of the following prices leads to?

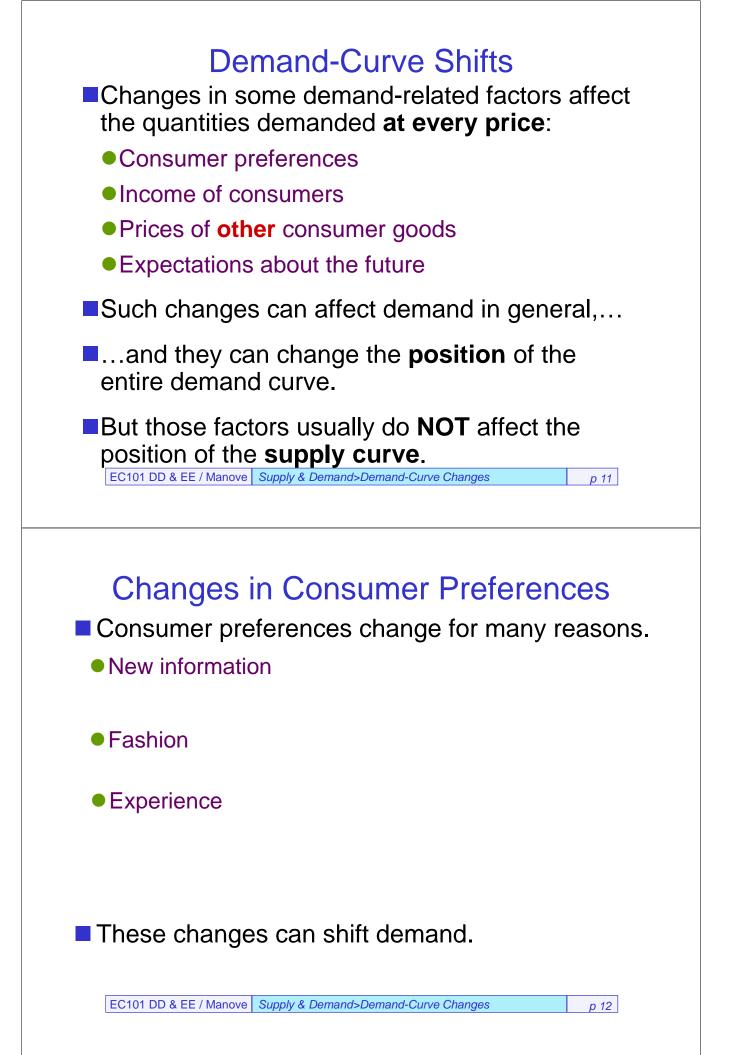
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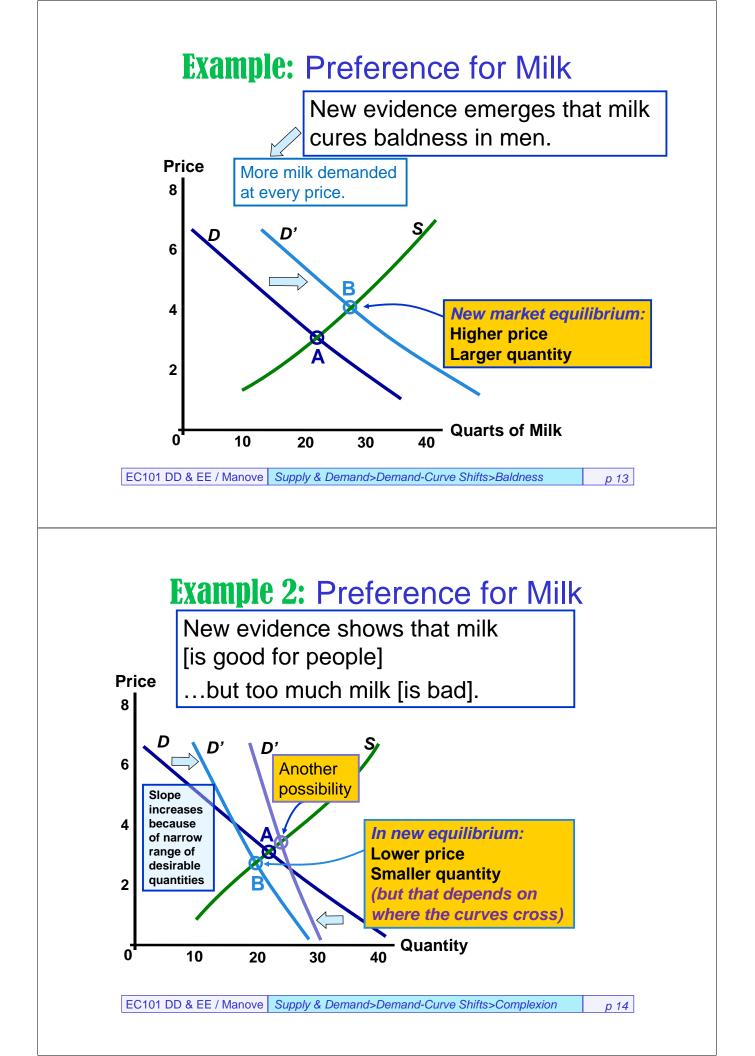
Movement Towards Equilibrium in the Market for Milk





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Clicker Question

Suppose a medical study demonstrates that red wine is good for the heart...

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Income and Demand

Demand is affected by a person's income.

• Normal goods: demand increases as income rises.

• Inferior goods: demand increases as income falls.

Example: Large Apartments and Income in Washington DC. Government salaries increase.

to supply more apartments.

In new equilibrium:

Much higher price Slightly larger quantity

Large

40 Apartments

Substitutes

2

10

20

30

EC101 DD & EE / Manove Supply & Demand>Demand-Curve Shifts>Apartments

Two goods are substitutes if you can use one of them instead of the other.

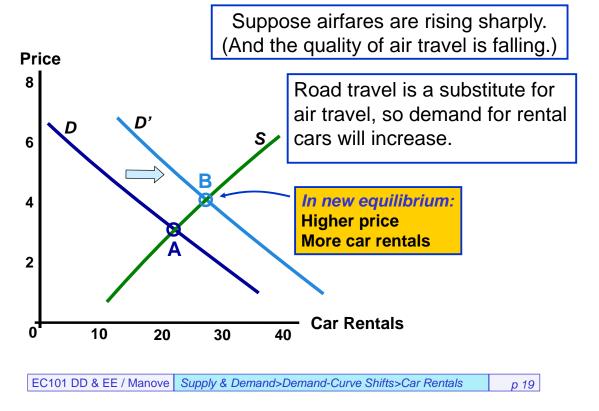
 Demand for a good (chicken) *increases* when the price of a substitute (hamburger) rises,...

because consumers want to buy less of the substitute,...

 and consume more of the first good instead at every price.

Supply & Demand>Demand-Curve Shifts>Substitutes

Example: Car rentals and Airfares

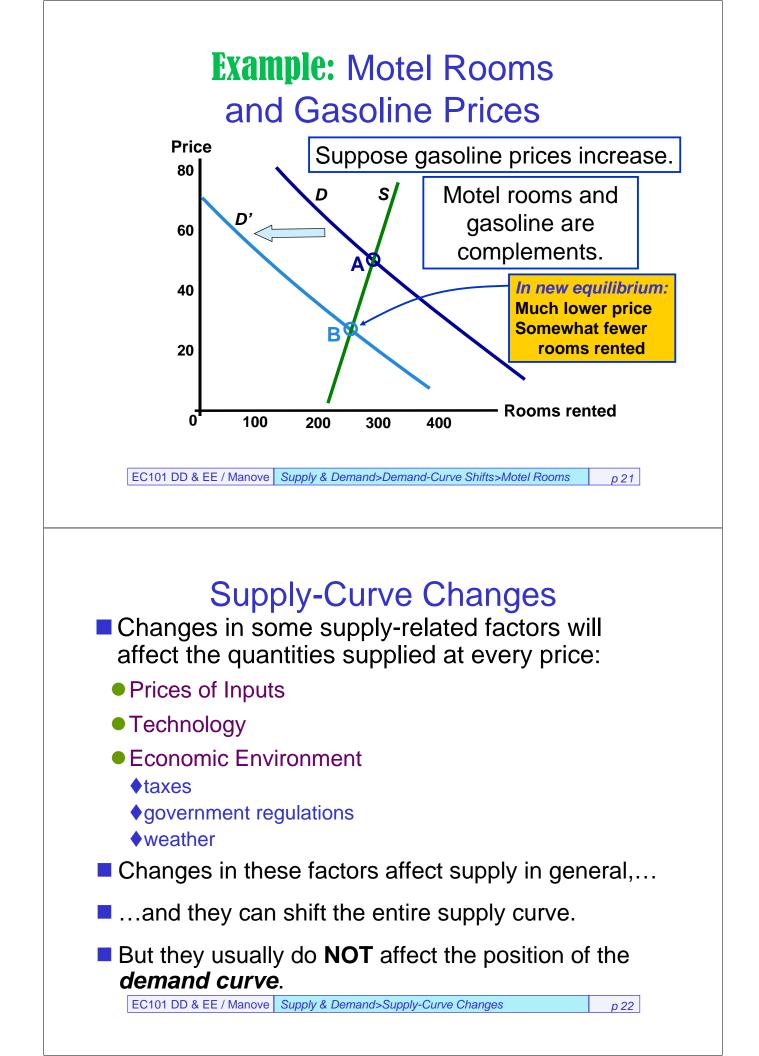


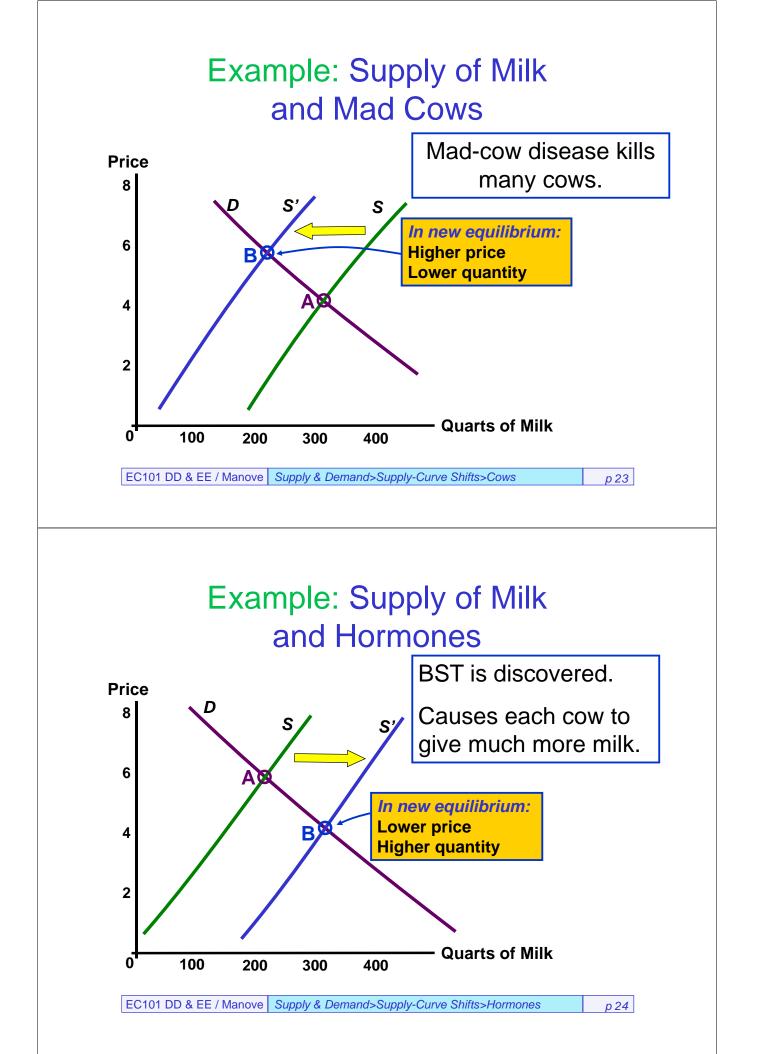
Complements

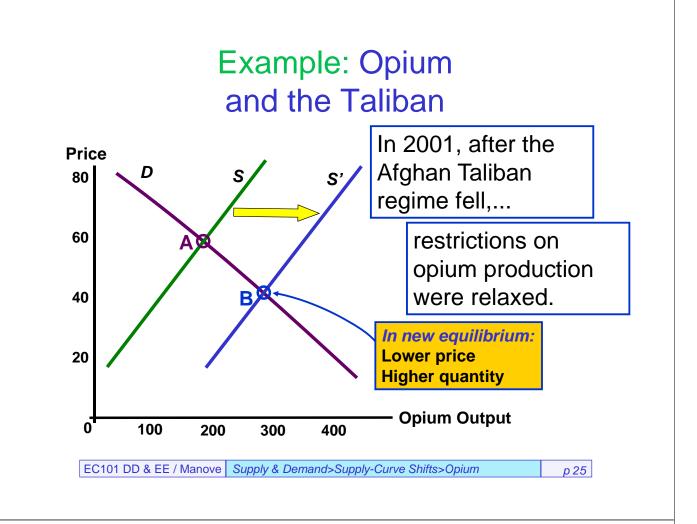
Two goods are complements in demand if you normally use both of them together.

 Demand for a good *decreases* when the price of a complement rises,...

 because if the complement is too expensive, the first good is less useful.







Clicker Question

If household incomes increase,...

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