



Understanding Economics

Chapter 2

Supply and Demand

**FRIEND HAS MACROECONOMICS
TEST IN THE MORNING**

**SENDS HIM MEMES ALL
DAY**

Learning Objectives

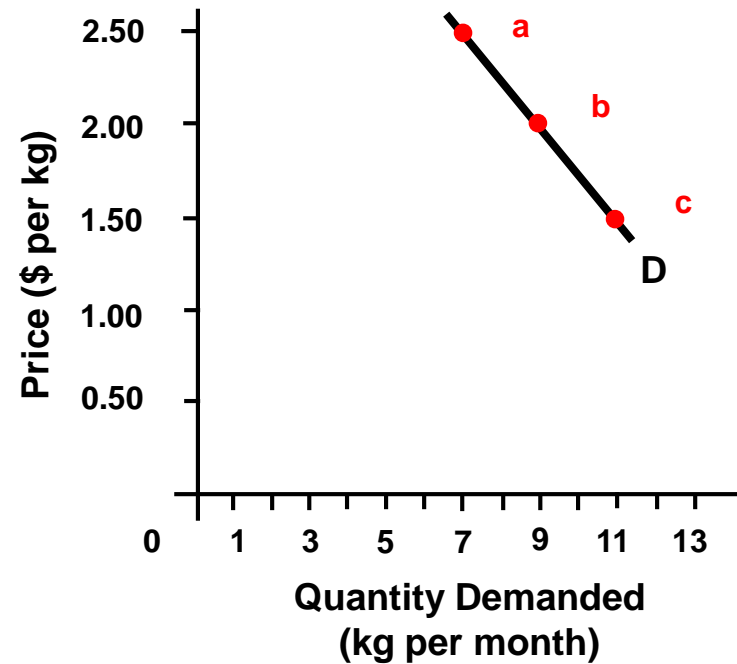
- In this chapter, you will:
 1. consider the nature of demand, changes in quantity demanded, changes in demand, and the factors that affect demand
 2. examine the nature of supply, changes in quantity supplied, changes in supply, and the factors that affect supply
 3. see how markets reach equilibrium – the point at which demand and supply meet

The Demand Curve

Your Demand Schedule for Strawberries

Price (\$ per kg)	Quantity Demanded (kg per month)	Point on graph
\$2.50	7	a
2.00	9	b
1.50	11	c

Your Demand Curve for Strawberries

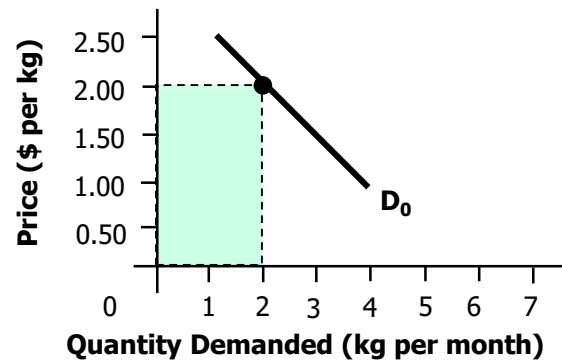


What Is Demand?

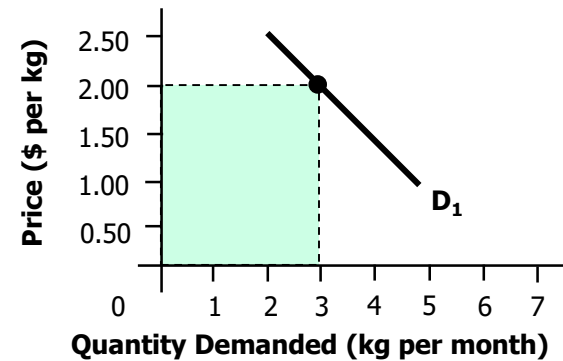
- Demand is a relationship between a product's price and quantity demanded.
 - Demand is shown using a *schedule* or *curve*.
 - The law of demand states that **price** and **quantity demanded** are inversely related.
 - Market demand is the sum of quantities demanded by all consumers in a market.

Deriving Market Demand

Your Demand Curve for Strawberries



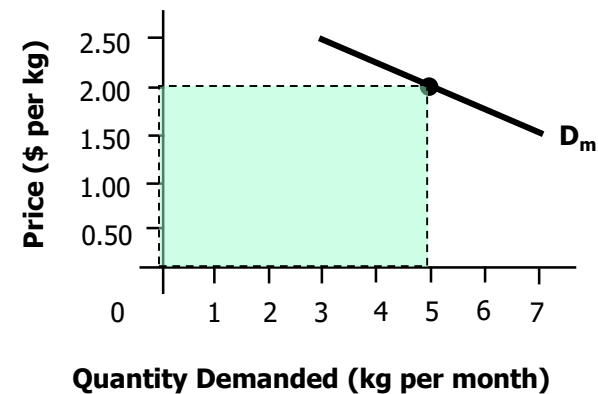
Friend's Demand Curve for Strawberries



Individual and Market Demand Schedules for Strawberries

Price (\$ per kg)	You (D_0)	Friend (D_1)	Market (D_m)
	(kg per month)		
\$2.50	1	2	3
2.00	2	3	5
1.50	3	4	7

Market Demand Curve for Strawberries



Changes in Demand (a)

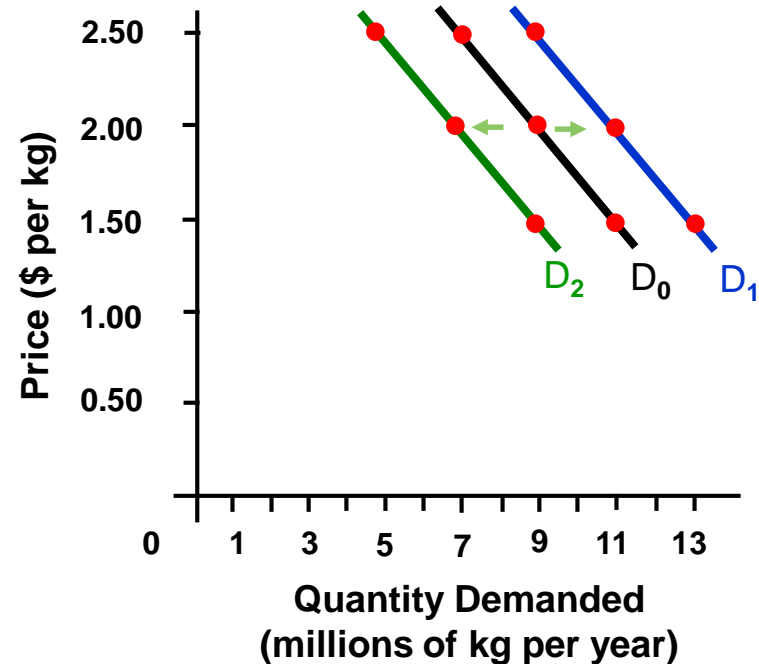
- Changes in demand:
 - are shown by shifts in the demand curve
 - are caused by changes in **demand determinants**
 - This is when **price remains unchanged**, the **demand for the item changes**
 - Demand changes due to **other factors** besides price of that item

Changes in Demand (b)

**Market Demand Schedule
for Strawberries**

Price (\$ per kg)	Quantity Demanded (millions of kg)		
	(D ₂)	(D ₀)	(D ₁)
\$2.50	5	7	9
2.00	7	9	11
1.50	9	11	13

Market Demand Curve for Strawberries



Demand Determinants (a)

- Demand determinants include the following factors:
 1. Number of buyers
 2. Income
 3. Price of other products
 4. Consumer Preferences
 5. Consumer Expectations

Demand Determinants (a)

The number of buyers

- baby boom increases demand for diapers
- Number of buyers for a certain product increases
=> more purchases are made => increase in demand => shift of the *entire* demand curve shifts RIGHT
- What happens when # of buyers decrease?
 - Q demand decrease -> P decrease => entire demand curve shifts LEFT

Demand Determinants (a)

Income

- For **normal products**, an increase causes a rightward demand shift.
 - Normal products: products whose demand changes directly with income
 - As income **increases**, your demand will **increase**
- For **inferior products**, an increase causes a leftward demand shift.
 - Inferior products: products whose demand changes inversely with income
 - As income **decreases**, your demand will **decrease**



Demand Determinants (b)

- Prices of other products
 - For substitute products, a rise in the other product's price causes a **rightward demand** shift.
 - For complementary products, a rise in the other product's price causes a **leftward demand** shift.





Demand Determinants (b)

- Consumer preferences
 - Apples are found to cure cancer
 - Latin music becomes more popular increasing demand for Latin CDs
- Consumer expectations
 - Gas prices are expected to increase next week, causing consumers to demand more of it this week



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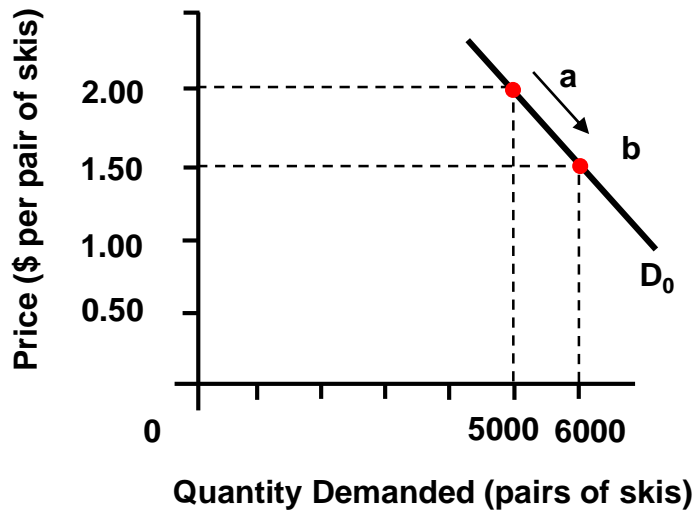


Changes in Quantity Demanded

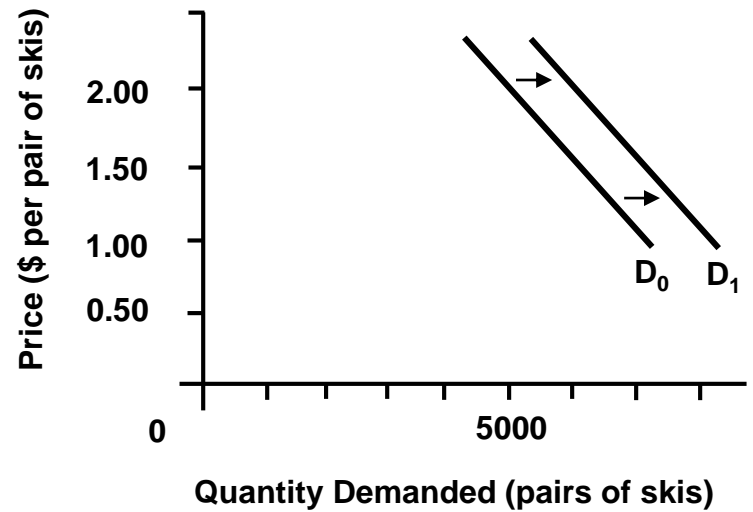
- Changes in quantity demanded:
 - are shown by movements along demand curve
 - are caused by price changes of that product or service

Changes in Quantity Demanded (b)

Change in Quantity Demanded



Change in Demand



Change in Quantity Demanded

- Movement from one point to another point – from one price-quantity combination to another – on a fixed demand schedule or demand curve

Change in Demand

- A change in the quantity demanded of a good or service at every price

Change in Quantity Demanded

- Buyers buy more because the price fell

Change in Demand

- Buys buy more even at the same price

Is the law of demand ever broken?

- Veblen Effect
 - An extremely rare situation where the relationship between product's price and quantity demanded is directly related
 - This may happen when the product price is seen as a status symbol – thus high price leads to more quantity demanded



Try Worksheet