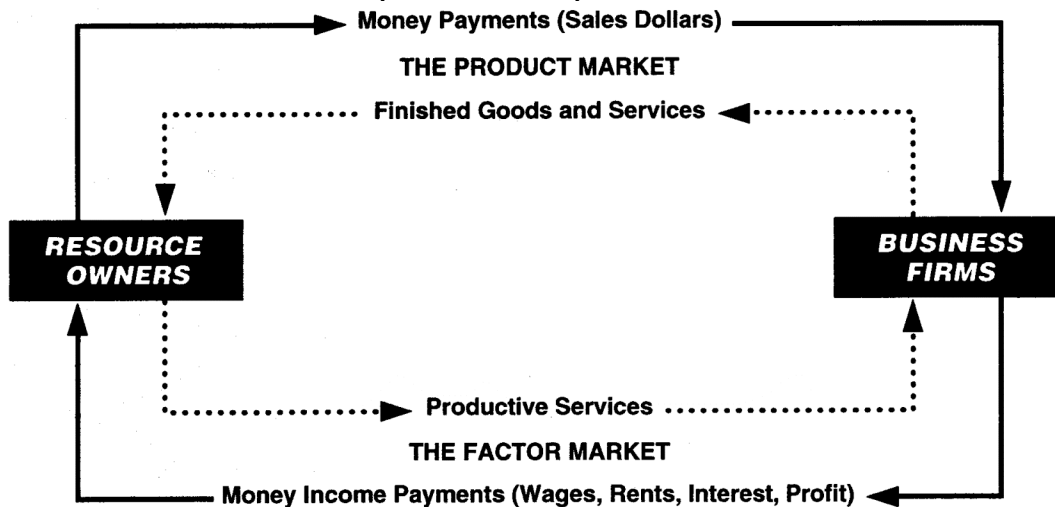


# Supply & Demand

## A. Markets & Prices

1. Markets – institutional arrangements that enable buyers & sellers to exchange goods & services
  - a.
  - b.
2. Price – the amount of money that people pay when they buy a good or service
  - a.
    - b. Relative prices – refers to the price of one good or service compared to the prices of other goods or services
      - (1)
      - (2)
      - (3) 3 basic economic questions
  - c. Relative prices perform 3 principal functions in a market economy
    - (1) Information function
    - (2) Incentive function
    - (3) Rationing function
  - d. The *circular flow model* shows the interactions between households & producers in product & resource markets:



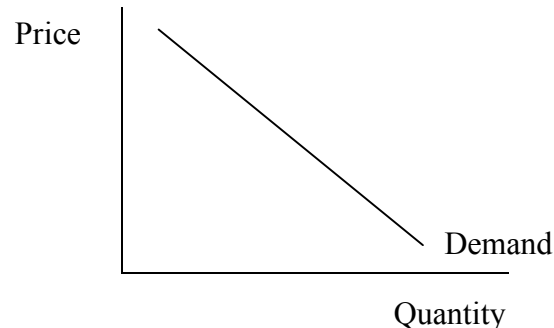
3. The forces of supply & demand determine prices, which are measures of the relative scarcity of different products
  - a.
  - b. Equilibrium price

B. Demand

1. Demand – the different quantities of a resource, good, or service that will be purchased at various possible prices during a specific time period
  - a. A ***demand schedule*** is a table showing how much consumers are willing & able to buy at all possible prices, & is based on the sum of the decisions made by individual consumers in a market

Price	Quantity

- b. The information in a demand schedule is often represented in a ***demand curve***:



2. Demand is influenced by the ***Law of Demand*** & the ***Law of Diminishing Marginal Utility***
  - a. Law of Demand
  - b. Law of Diminishing Marginal Utility
3. A change in the price of a good or service will affect its quantity demanded
  - a. An ***INCREASE*** in price →
  - b. A ***DECREASE*** in price →

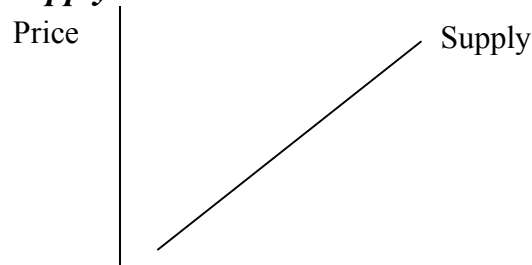
4. A **shift of demand** (change in demand) is the movement of the entire demand curve & will result in a change in the equilibrium price & the equilibrium quantity
  - a. A shift to the **RIGHT** of demand (increase of demand)
    - (1)
    - (2)
  - b. A shift to the **LEFT** of demand (decrease of demand)
    - (1)
    - (2)
  
5. There are a few **determinants of demand** that will cause the demand of a good or service to change (shift)
  - a.
  - b.
  - c. Changes in prices of related products
    - (1) Substitute goods
    - (2) Complementary goods

### C. Supply

1. Supply – the different quantities of a resource, good, or service that will be offered for sale at various possible prices during a specific time period
  - a. A **supply schedule** is a table showing how much producers are willing & able to sell at all possible prices, & is based on the sum of the decisions made by individual producers in a market

Price	Quantity

- b. The information in a supply schedule is often represented in a **supply curve**:



Quantity

2. While supply (all the factors of production) is variable in the long run, in the short run, supply is influenced by the ***Law of Supply*** & the ***Law of Diminishing Returns***
  - a. Law of Supply
  - b. Law of Diminishing Returns
3. A change in the price of a good or service will affect its quantity supplied
  - a. An ***INCREASE*** in price →
  - b. A ***DECREASE*** in price →
4. A ***shift of supply*** (change in supply) is the movement of the entire supply curve & will result in a change in the equilibrium price & the equilibrium quantity
  - a. A shift to the ***RIGHT*** of supply (increase of supply)
    - (1)
    - (2)
  - b. A shift to the ***LEFT*** of supply (decrease of supply)
    - (1)
    - (2)
5. There are a few ***determinants of supply*** that will cause the supply of a good or service to change (shift)
  - a.
  - b.
  - c.

#### D. Elasticity

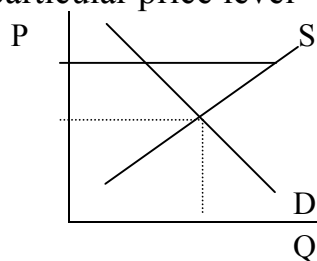
1. Elasticity – the degree to which changes in a good or service’s price affects the quantity demanded by consumers or quantity supplied by producers
  - a. Elastic supply or demand
  - b. Inelastic supply or demand

2. While the elasticity of demand & supply are usually more elastic in the long run, in the short run they can be influenced by a few factors
  - a. Elasticity of demand is influenced by the availability of substitute goods or services, if the item is regarded as a necessity or a luxury, & if the product makes up a small or large part of the consumer's budget
    - (1) Elastic demand
    - (2) Inelastic demand
  - b. Elasticity of supply is influenced by the availability of resources, the expense, & the time frame to increase production
    - (1) Elastic supply
    - (2) Inelastic supply

E. Surpluses & Shortages

1.

2. Surplus – when the quantity supplied exceeds the quantity demanded at a particular price level

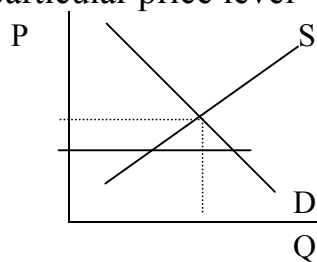


a.

b.

c.

3. Shortage – when the quantity demanded exceeds the quantity supplied at a particular price level



a.

b.

c.

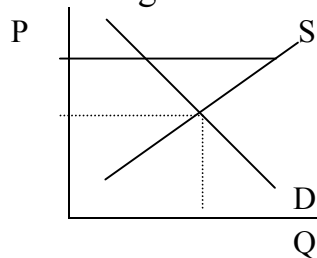
F. Price Controls

1. Price controls – when the government intervenes into a particular market & sets prices

a.

b.

2. Price floors – government regulation that establishes a minimum price for a particular good or service

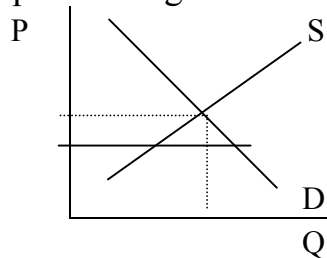


a.

b.

c. Ex)

3. Price ceiling – government regulation that establishes a maximum price for a particular good or service



a.

b.

c. Ex)

4. Most economists advise against the use of price controls due to its creation of shortages & surpluses, & long run allocation problems they can create in the economy