

Supply and Demand

12/1-12/2 (Maybe 12/3)



Law of Demand

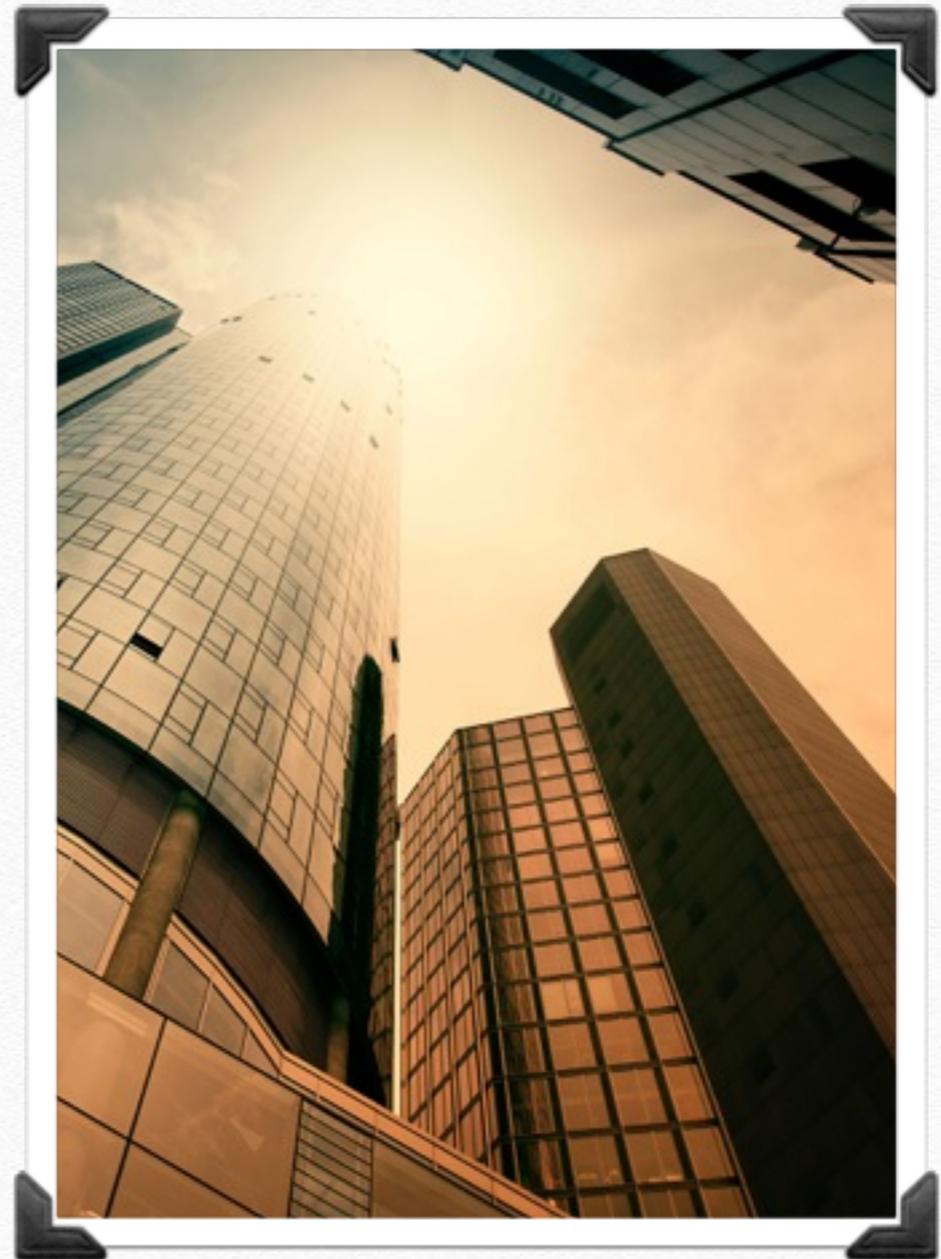
Let's Start here

What is Demand?

- ❖ In Economics it refers to the desire, willingness, and ability to buy a good or service.
- ❖ For Demand to exist, a consumer must *want* a good or service.
- ❖ The Consumer has to be *willing* to buy the good or service
- ❖ Finally the consumer must have the *resources* to buy the product.

Demand Curve

- ❖ This is a graph that shows the amount of a product that would be bought at all possible prices in the market!
- ❖ **IMPORTANT:** Prices go on the vertical axis, quantities go on the horizontal axis!!
- ❖ Demand Schedule: Table showing the quantity a consumer will buy at a certain price



Demand Curve Example

Price	Quantity Demanded per Month
\$15	1
12	2
9	3
6	5
3	7



Law of Demand!!

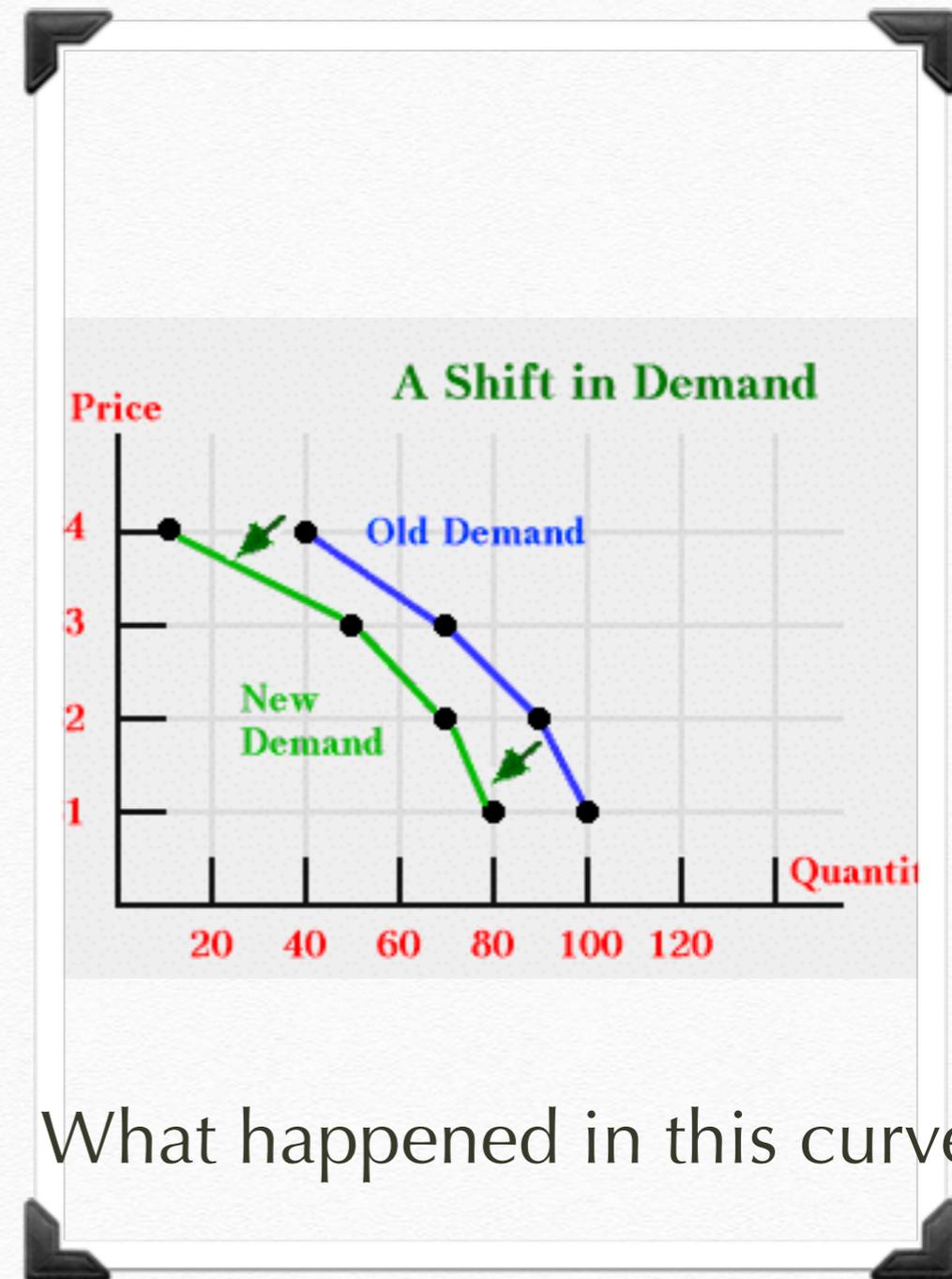
- ❖ “Quantity demanded and price move in the Opposite direction!!”
- ❖ Example: People are willing to buy less of a product if the price is high, and more if the price is low.
- ❖ Specials at stores: Buy 2 for \$1 or 1 for \$.70??
- ❖ 4 for \$11 or 1 for \$5??

Types of Demand

- ❖ Market Demand- total demand for all consumers
- ❖ Individual Demand- the demand based on an individual.

What changes Demand??

- ❖ Factors that Change Demand:
- ❖ Change in Population: More People = More Demand, Less people = Less demand
- ❖ Change in Income
- ❖ Change in Taste - Fade in popularity of a product
- ❖ Change in Expectations - Better product coming our next spring (Xbox One over Xbox 360)
- ❖ "Marginal Utility" - The amount of satisfaction/usefulness that product gives you
- ❖ Prime Rule: **Increase** in demand curve shifts *Right*.....**Decrease** in Demand curve shifts *Left*!!



Examples to discuss: New Apartments in China Grove, Pay Raise/Pay Cut,

Law of Demand

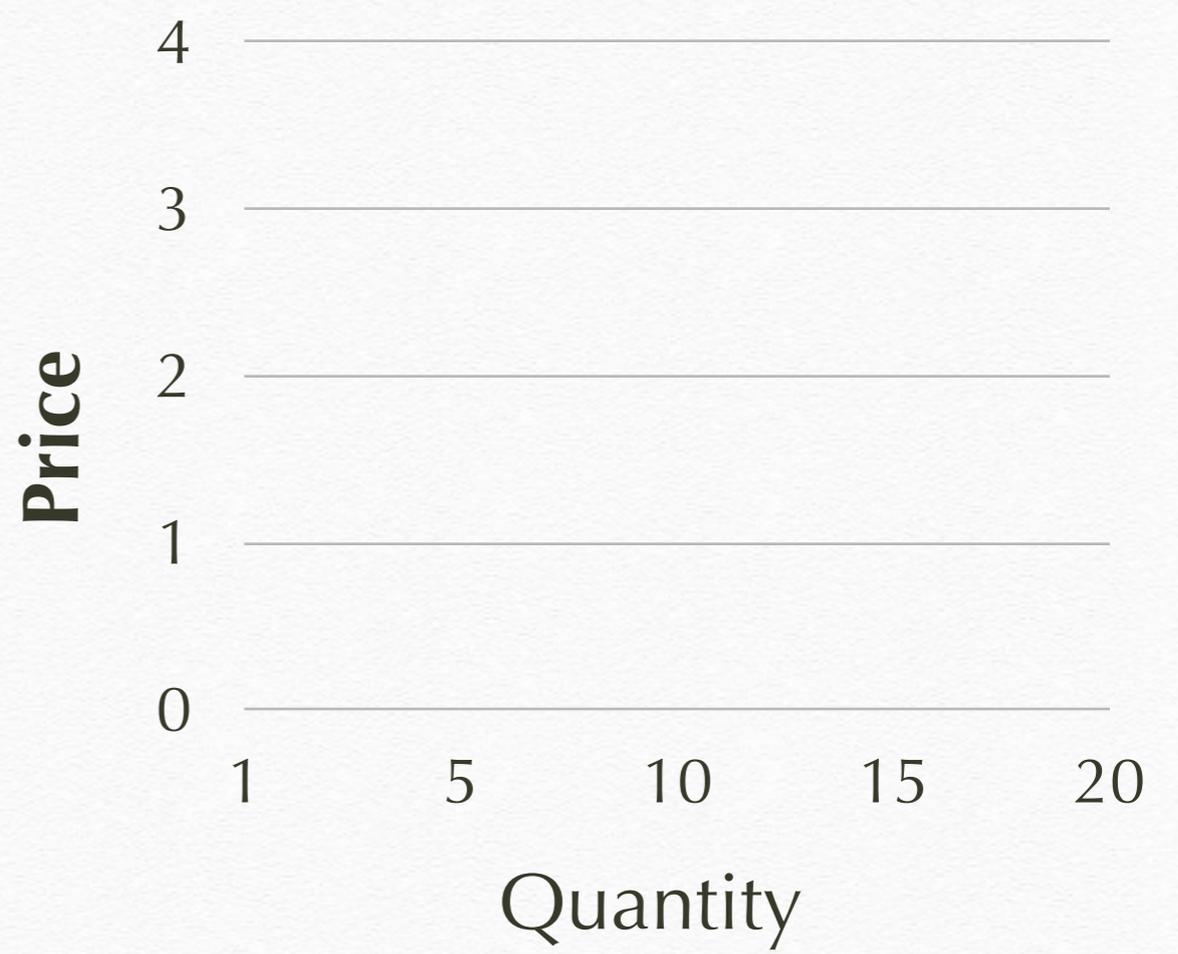
When the price goes up...

...the quantity demanded goes down.

NOTE: The relationship between price and quantity is inverse.

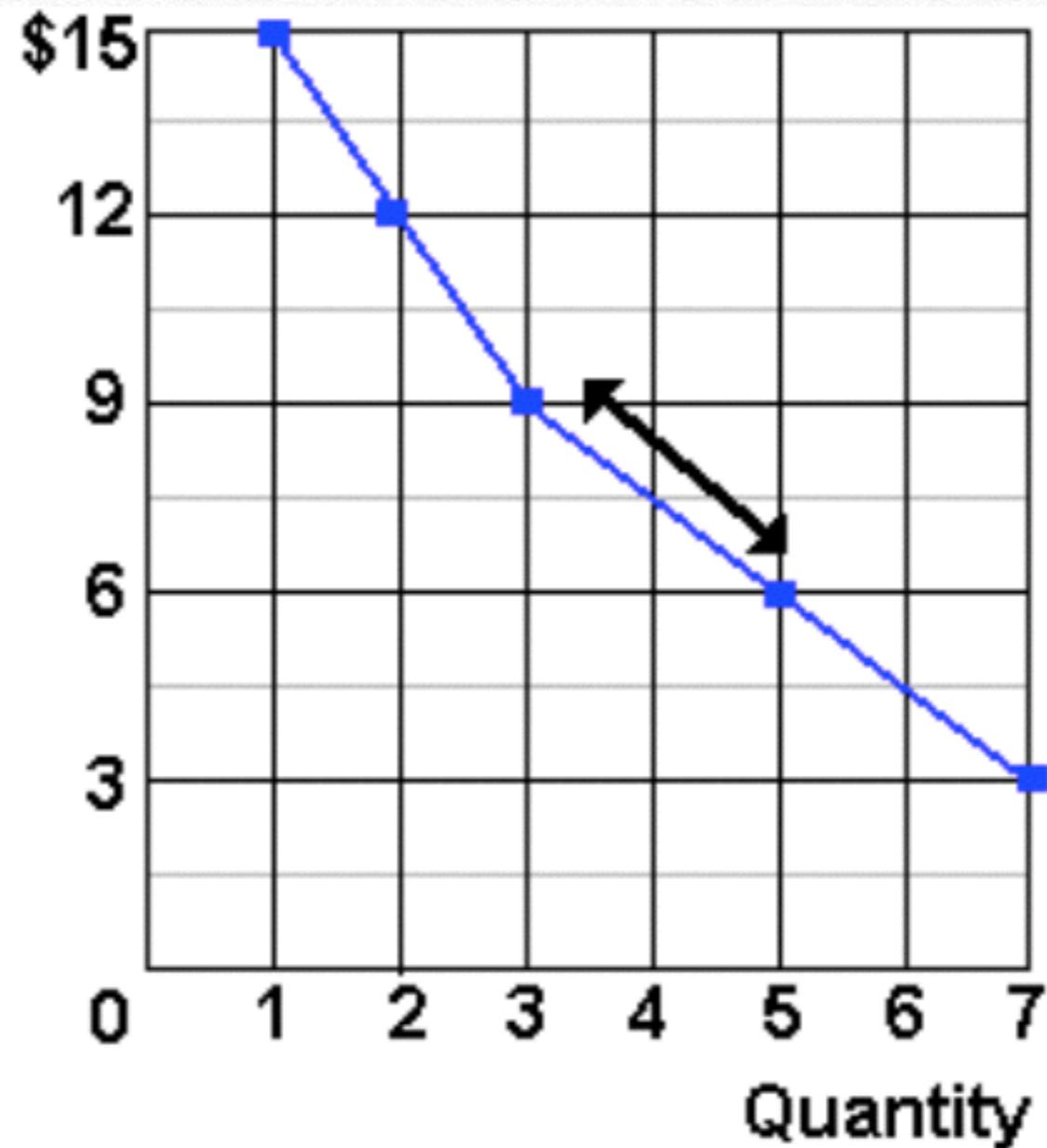
When the price goes down...

...the quantity demanded goes up.



Scenarios

This Chart shows the Demand Curve for Cd's



Changes:

New Cd Become Number 1

Artist releases Newer CD,
what is the demand for the
older cd

One Last Thing

Demand Elasticity!!

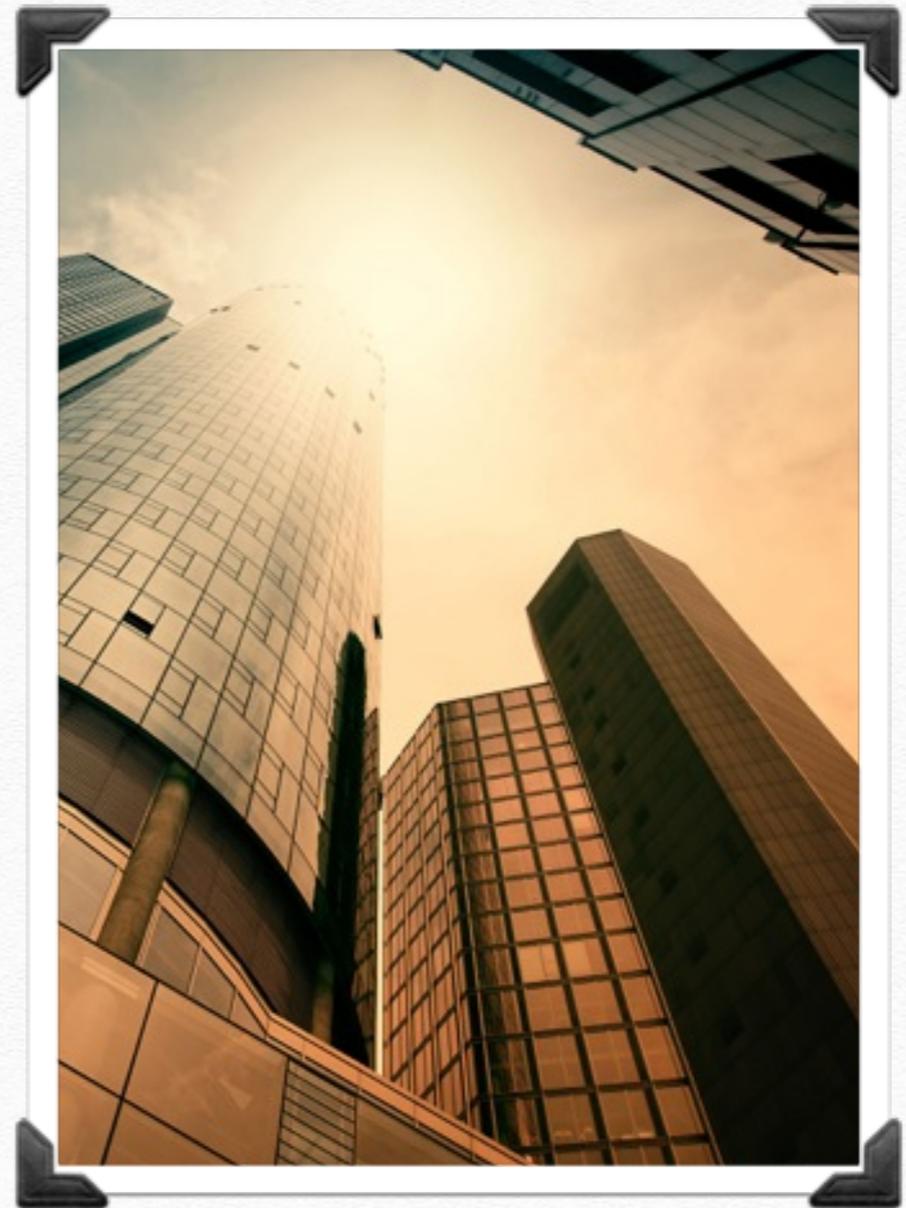
-The extent to which a change in price causes a change in the quantity demanded.

Substitute v. Expensive

Demand Inelasticity!!

Price Changes have little effect on quantities demanded

Necessity v. Luxury



Heart Meds

Music CDs

Milk

Gas

Pause for Super Sleuth Activity!

Go to my website and download it quickly!

Civics - Dec. Tab

Now Let's Talk Supply

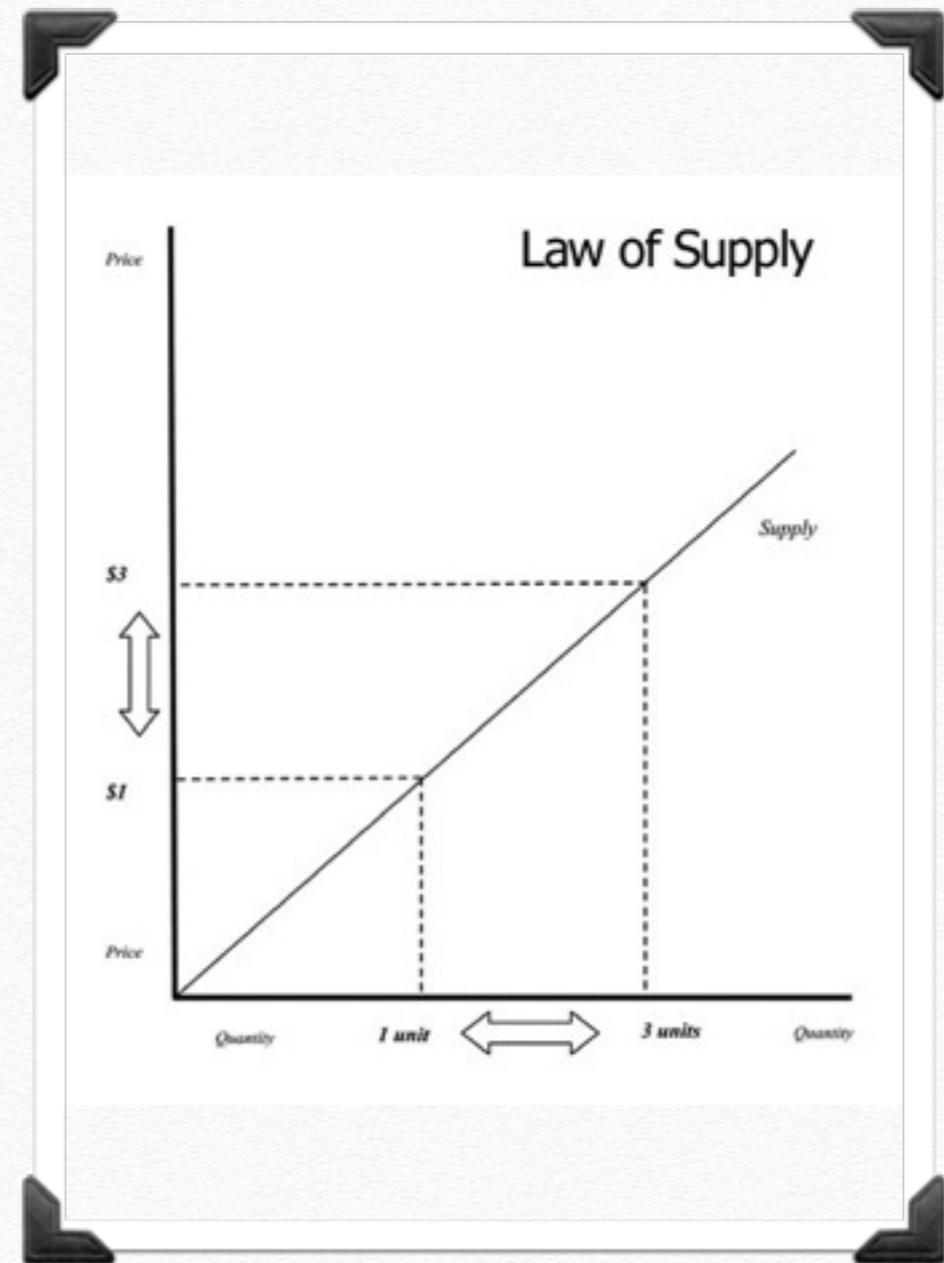


What is Supply?

- ❖ refers to the various quantities of a good or service that producers are willing to sell at all possible market prices!
- ❖ Buyers demand different quantities of a good depending on the price sellers ask.
- ❖ Suppliers offer different quantities of a product depending on the prices buyers are willing to pay.

Law of Supply!!

- ❖ The Law of Supply States:
- ❖ “As the price of a good rises, the quantity supplied rises. As the price of a good falls, the quantity supplied falls.”



Supply 101

- ❖ Supply Curve: Graph that shows the amount of a product that would be supplied at all possible prices in the market!!
- ❖ What goes on the vertical axis??
- ❖ What goes on the horizontal axis??
- ❖ Prime rule?? - *When Supply decreases, Supply curve shifts Left, When supply increases, Supply curve shifts Right!*



But What Drives Supply???

- ❖ Profit!!! - The amount of money a business makes on a good after production cost.
- ❖ If it takes \$20 to make a game, if they sell the game for \$20 they make no money. So they will sell the game for \$40. To make a Profit!!
- ❖ This is the Prime Motive of businesses in America..Profit Driven Society!!

Changes to Supply?

- ❖ Cost of Resources- When prices of resources used to produce goods and services fall = sellers make more due to cheap production cost. If they rise, production slows down due to rising cost and less room for profit.
- ❖ Productivity: If it increases, then more goods can be produced, if it decreases less goods are being made.
- ❖ Technology: New technology can speed up production and increase supply
- ❖ Gov't Policies: Increased regulations can restrict supply, causing the curve to shift _____?
- ❖ Other things that effect Supply: Taxes, Expectations, Numbers of Suppliers.

Supply Elasticity

- ❖ The measure of how the quantity supplied of a good or service changes in response to changes in prices.
- ❖ Depends on how quickly a company can change the amount of a product it makes in response to price changes.
- ❖ Oil v. Pencils

Scenarios

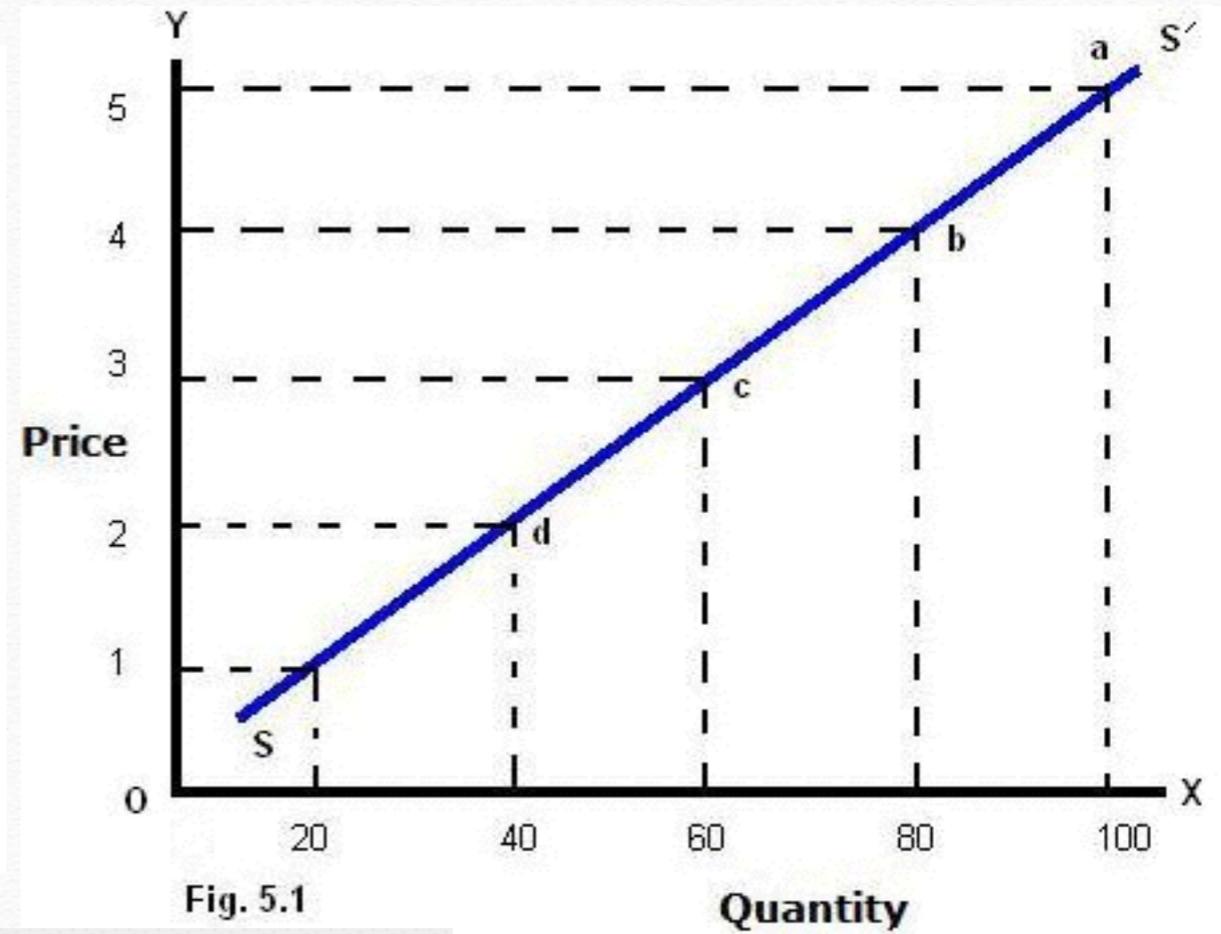
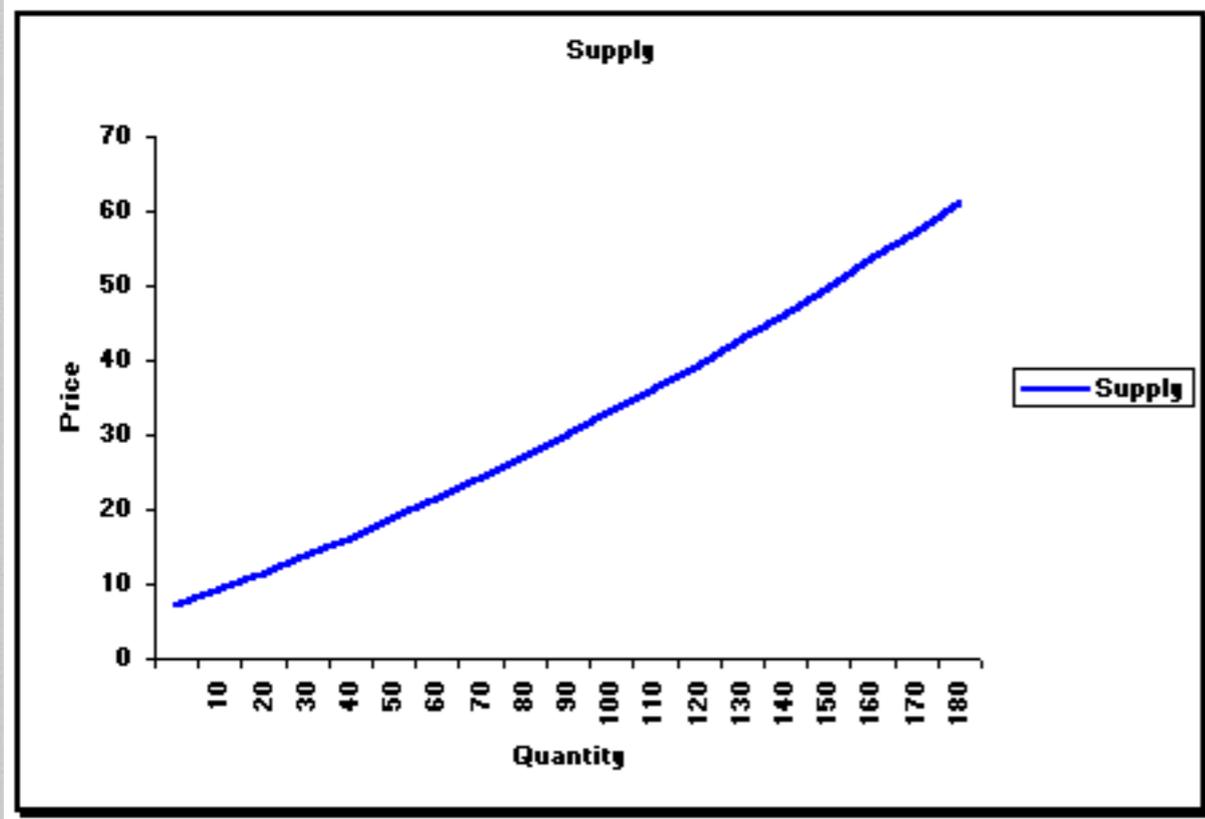


Fig. 5.1



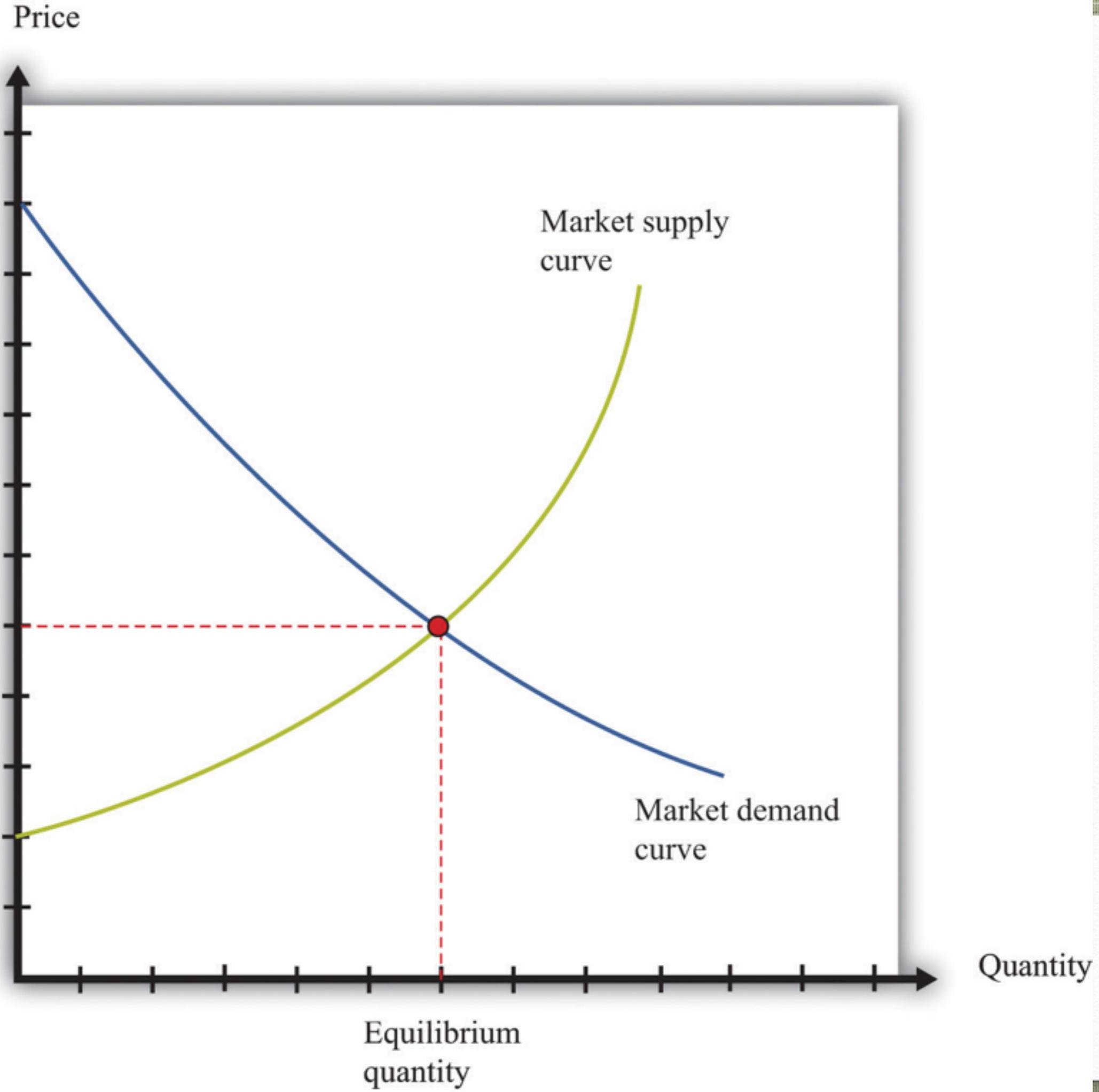
Let's Combine Supply and Demand!

Day 2



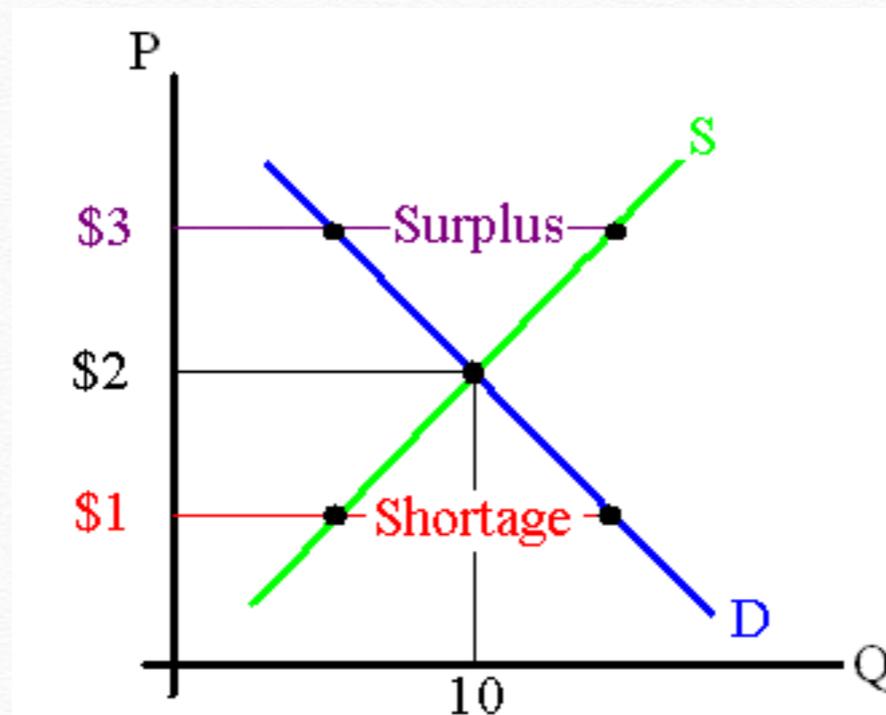
Supply and Demand

- ❖ The Forces of Supply and Demand work together in markets to establish prices. In our economy prices form the basis for economic decisions.
- ❖ In order to see this effectively, we need to combine the supply curve and the demand curve.



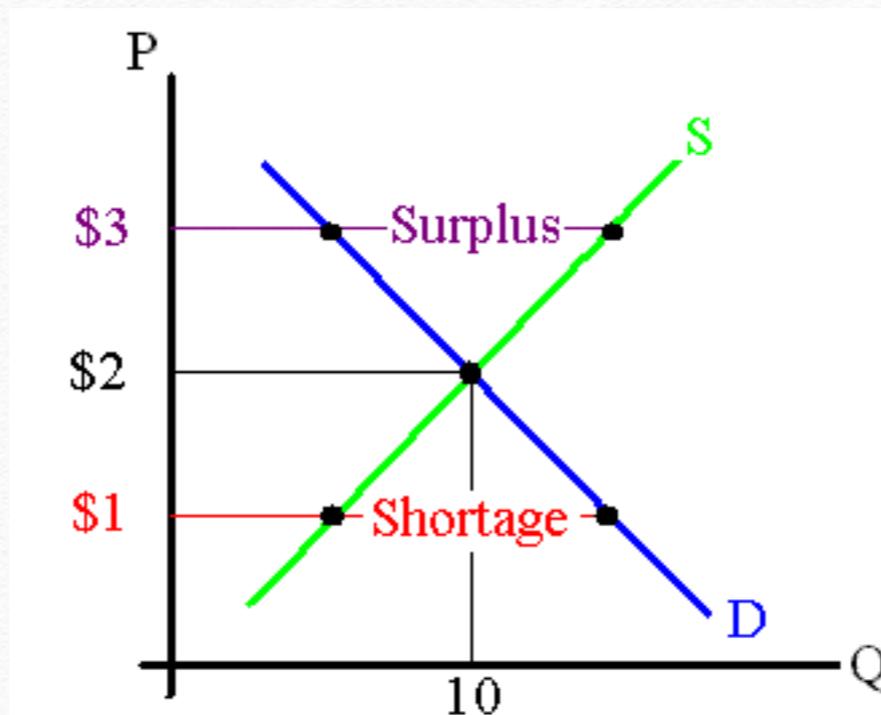
Price Adjustment Process

- ❖ Surplus - the amount by which the quantity supplied is higher than the quantities demanded. (*The gap between the supply curve and the demand curve at any point above the intersect*)



Surplus shows that the price is TOO high

- ❖ Shortage - the amount by which the quantity demanded is higher than the quantity supplied (The gap between the supply curve and the demand curve below the intersect)



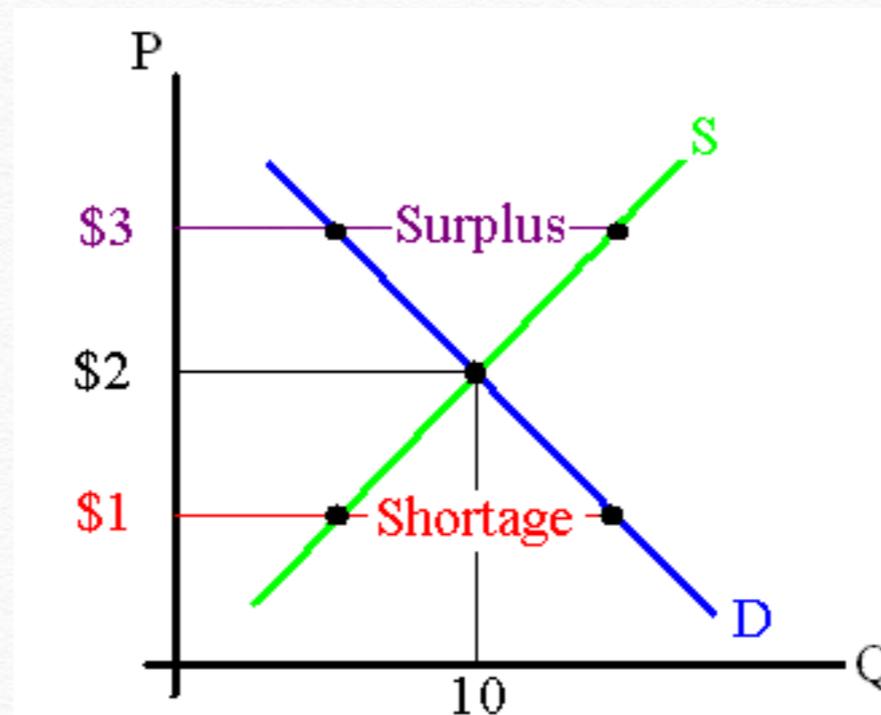
Shortage signals that the price is too low!

Equilibrium Price

The exact balance between shortage and surplus

One of the benefits of a market economy is that it eliminates shortages and surpluses when it operates without restrictions.

“A Surplus forces prices down, and a shortage forces prices up!”



Price Ceilings and Prices and Signals

