

# Chapter 3

Demand

Individual  
Demand

Determinants  
of Demand

Supply

Individual  
Supply

Determinants  
of Supply

Market  
Equilibrium

Government-  
Set Prices

Last Word

# 3



# Demand, Supply, and Market Equilibrium

Key Terms



End Show



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# Chapter Objectives

- **Demand Defined and What Affects It**
- **Supply Defined and What Affects It**
- **How Supply & Demand Together Determine Market Equilibrium**
- **How Changes in Supply and Demand Affect Equilibrium Prices and Quantities**
- **Government-Set Prices and their Implications for Surpluses & Shortages**

Key Terms



End Show



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Key Terms



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# Demand



- **Demand Defined** – the willingness and ability to purchase goods or services at various prices
- **Demand Schedule** – table/chart listing prices and quantities demanded
- **Law of Demand** – as prices fall, quantity demanded will rise, and as prices rise, quantity demanded will fall. Inverse relationship.
  - **Diminishing Marginal Utility** – successive units of a particular product yield less marginal utility (each additional product consumed brings less satisfaction)



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Key Terms



End Show



# Demand

- **Income Effect** – when a buyer has more income, they can purchase more  3.1
- **Substitution Effect** – when prices are relatively lower for products that can be substitutes, people will purchase the substitute goods.  3.2
- **Demand Curve** – downward sloping curve created by plotting the combinations of prices and quantity demanded at each price (P is the Y axis, Quantity Demanded is the X axis)  3.3
- **Market Demand** - found by adding up all the individual demand curves  3.4

# Chapter 3

## Individual Demand

Demand

Individual Demand

Determinants of Demand

Supply

Individual Supply

Determinants of Supply

Market

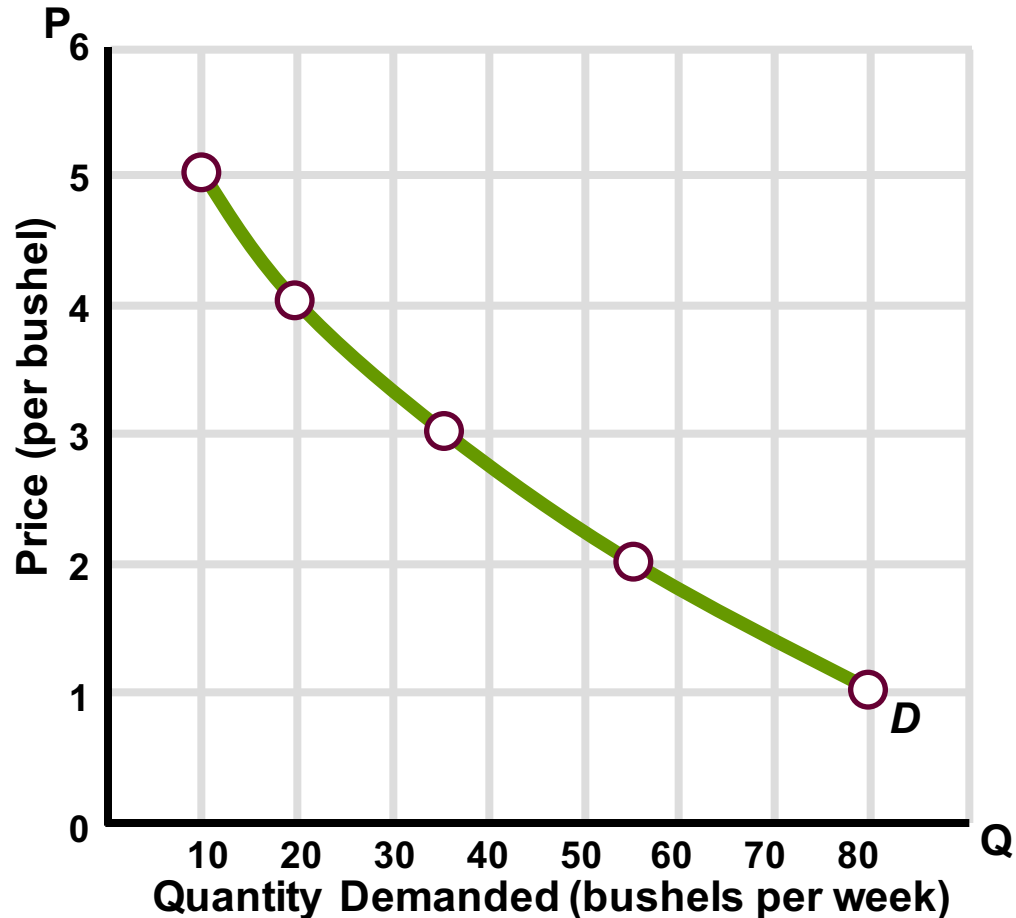
Equilibrium

Government-Set Prices

Last Word

### Individual Demand

P	$Q_d$
\$5	10
4	20
3	35
2	55
1	80



Key Terms



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# Individual Demand

## *Determinants of Demand*

- Tastes and preferences
- Number of Buyers (Population)
- Income
  - Normal Goods
  - Inferior Goods
- Price of Related Goods
  - Substitute Good
  - Complementary Good
- Consumer Expectations

Key Terms



End Show



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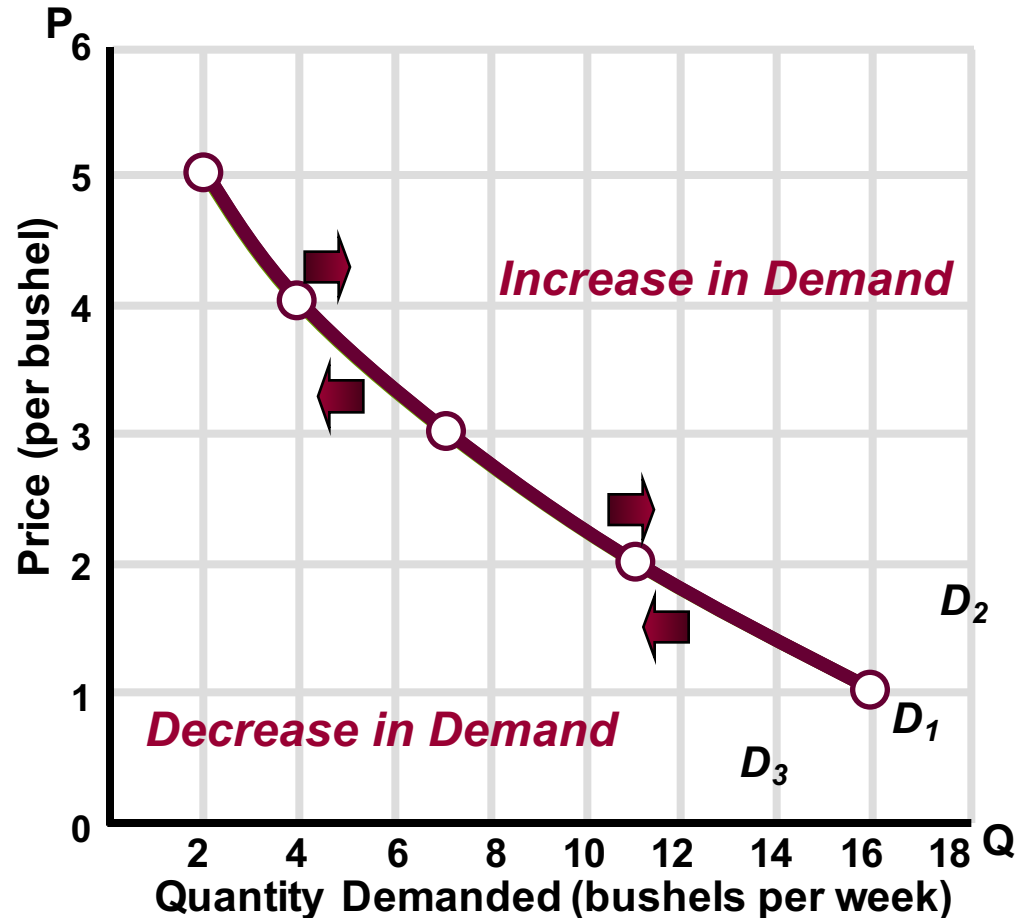
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# Individual Demand

*Demand Can Increase or Decrease*

## Individual Demand

P	Q <sub>d</sub>
\$5	10
4	20
3	35
2	55
1	80



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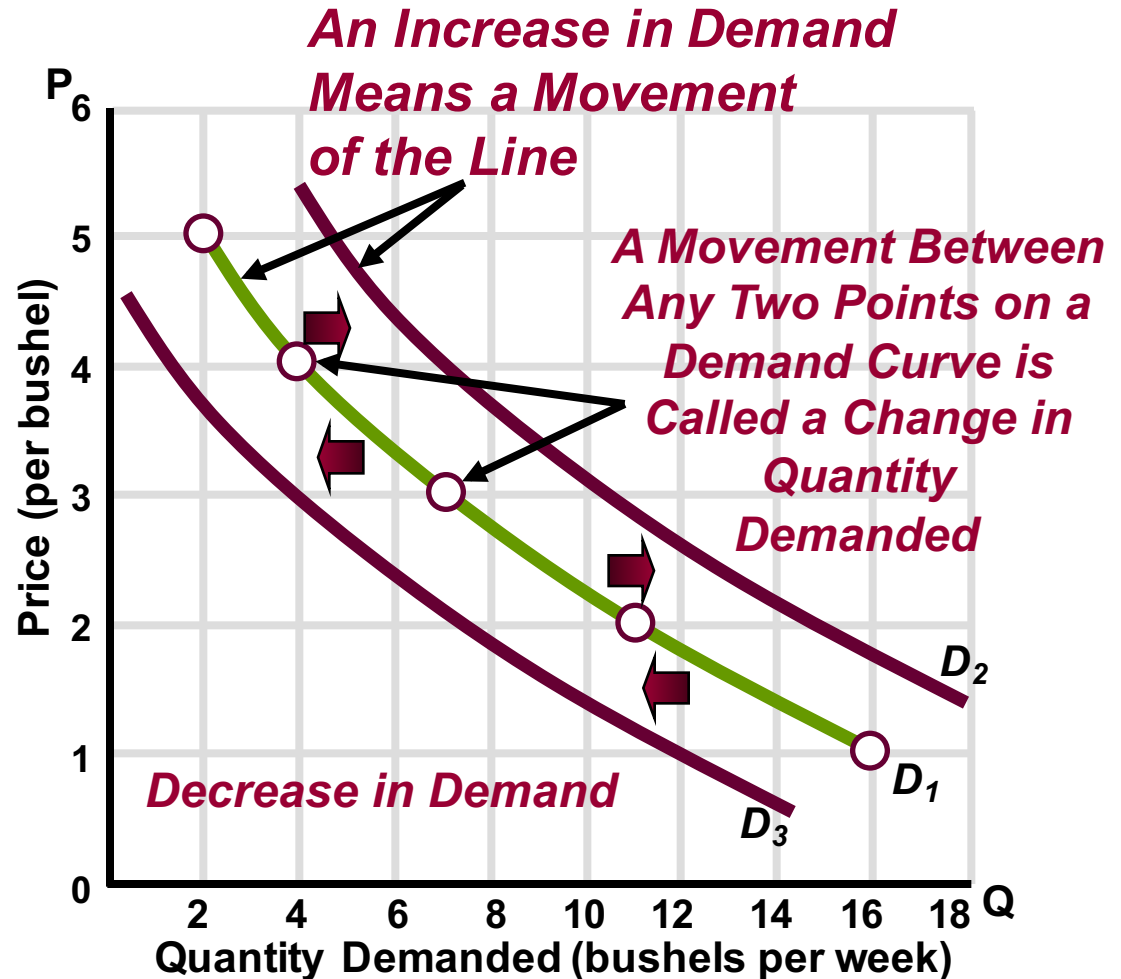
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# Individual Demand

## Demand Can Increase or Decrease

### Individual Demand

P	Q <sub>d</sub>
\$5	10
4	20
3	35
2	55
1	80





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# Supply

- **Supply Defined** – amount of a product or service that producers are willing and able to make at various prices
- **Supply Schedule** – table/chart listing the quantities that will be produced at each price
- **Law of Supply** – as prices rise, quantities supplied rise, as prices fall, quantities supplied fall (direct relationship)
- **Supply Curve** – upward sloping curve created by plotting points that represent combinations of price and quantity supplied
- **Market Supply** - found by adding up individual firms supply curves

Key Terms



End Show



# Chapter 3

## Individual Supply

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Individual Supply

Determinants of Supply

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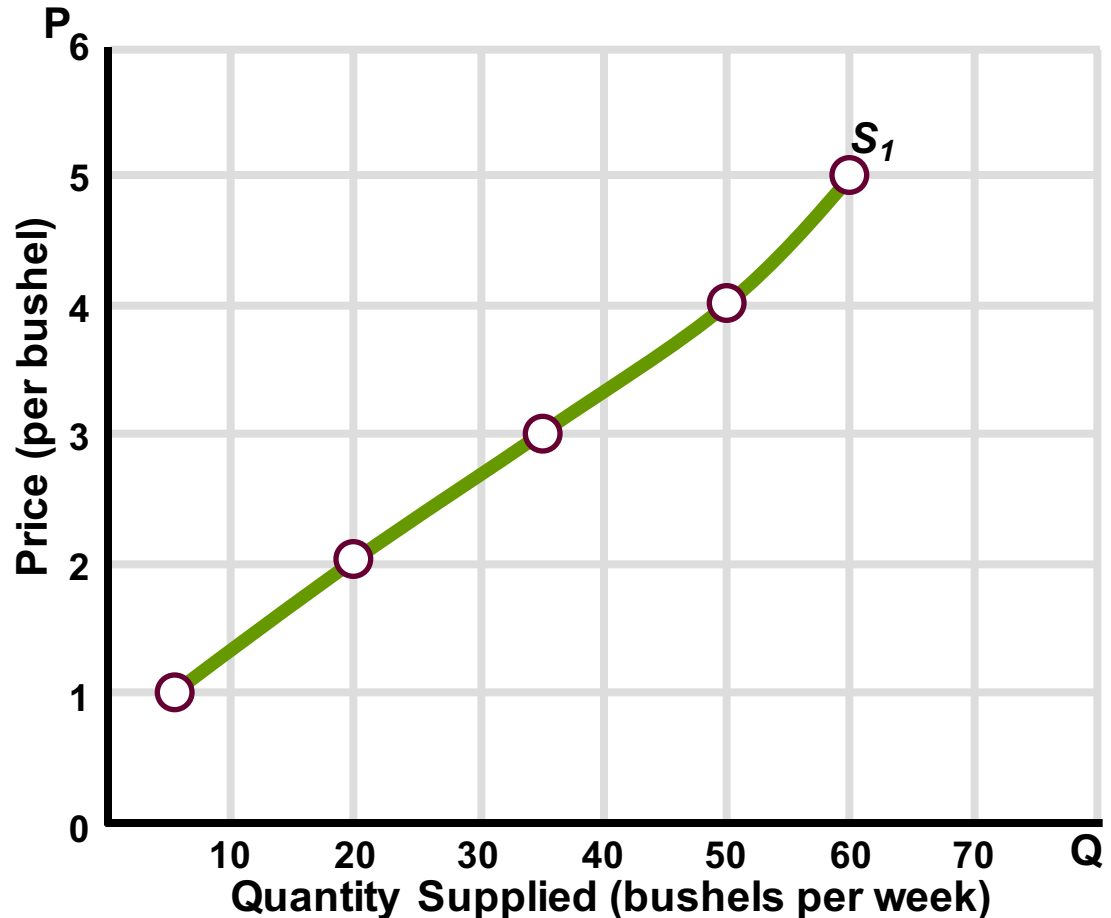
Equilibrium

Government-Set Prices

Last Word

### Individual Supply

P	Q <sub>s</sub>
\$5	60
4	50
3	35
2	20
1	5



Key Terms



End Show



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# Individual Supply

## *Determinants of Supply*

- **Resource Prices (inputs)**
- **Productivity**
- **Technology**
- **Taxes and Subsidies**
- **Government Regulation**
- **Producer Expectations**
- **Number of Sellers**

Key Terms



End Show



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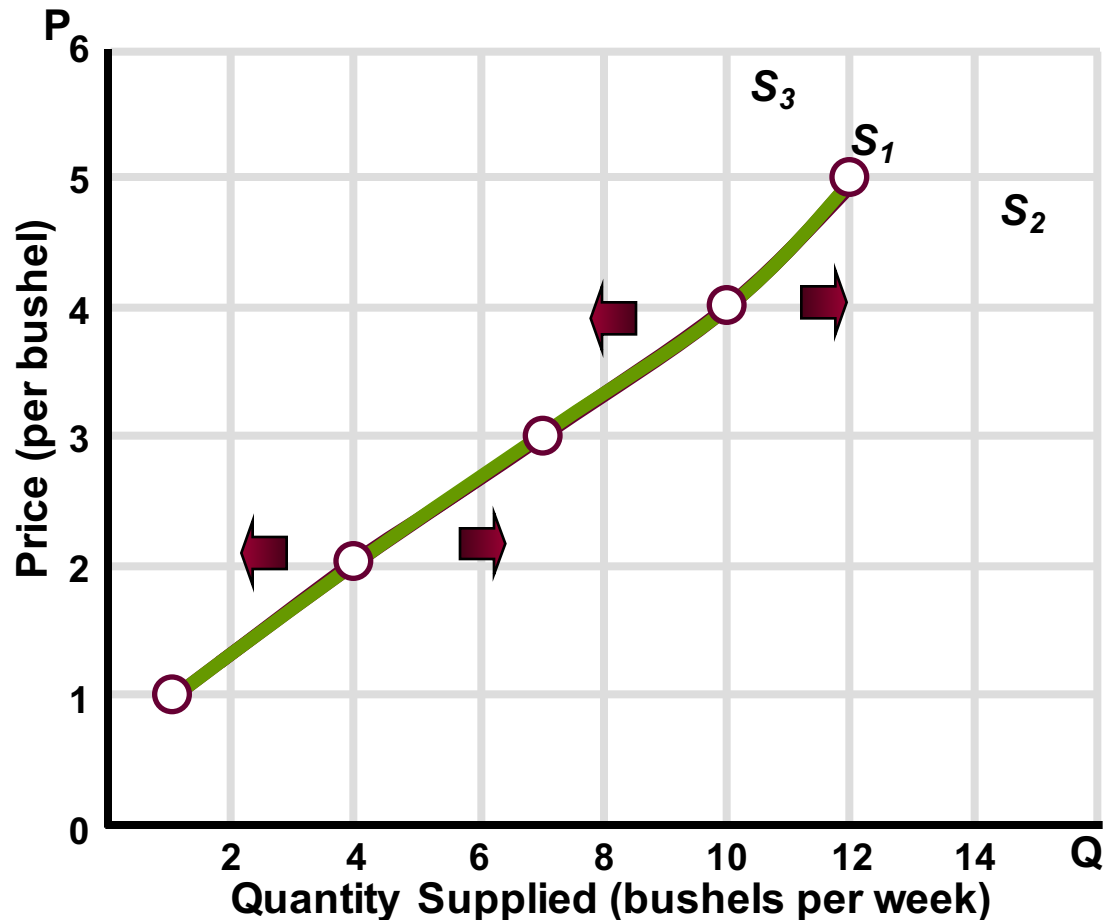
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# Individual Supply

*Supply Can Increase or Decrease*

## Individual Supply

P	Q <sub>s</sub>
\$5	60
4	50
3	35
2	20
1	5

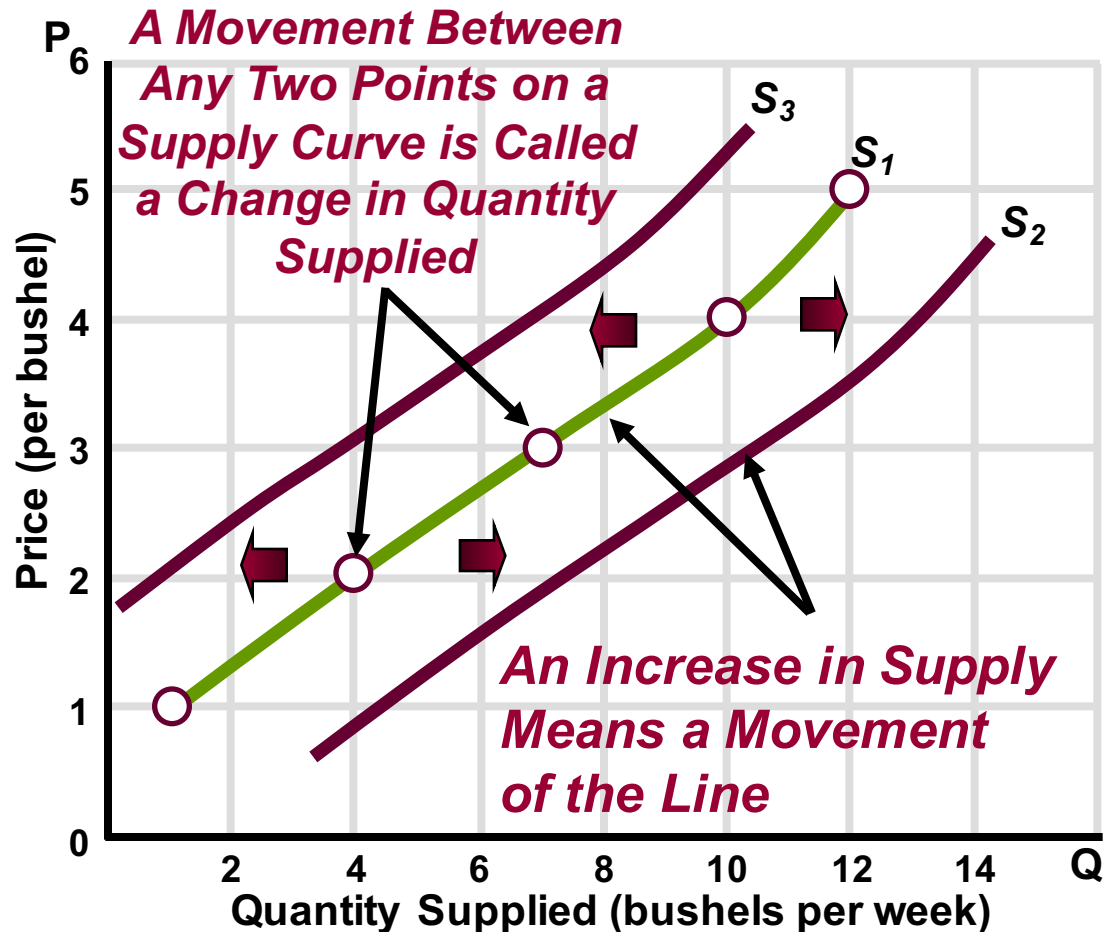


# Individual Supply

## Supply Can Increase or Decrease

### Individual Supply

P	Q <sub>s</sub>
\$5	60
4	50
3	35
2	20
1	5



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# Market Equilibrium



3.1

- **Equilibrium Price** – price where quantity demanded = quantity supplied
- **Equilibrium Quantity** – quantity where quantity demand = quantity supplied at the equilibrium price
- **Surplus** – when quantity supplied > quantity demanded (occurs at prices above equilibrium)
- **Shortage** – when quantity demanded > quantity supplied (occurs at prices below equilibrium)
- **Rationing Function of Prices** – the ability of the competitive forces in the market to bring the market to equilibrium

Key Terms



End Show



# Chapter 3

## Market Equilibrium

### 200 Buyers & 200 Sellers

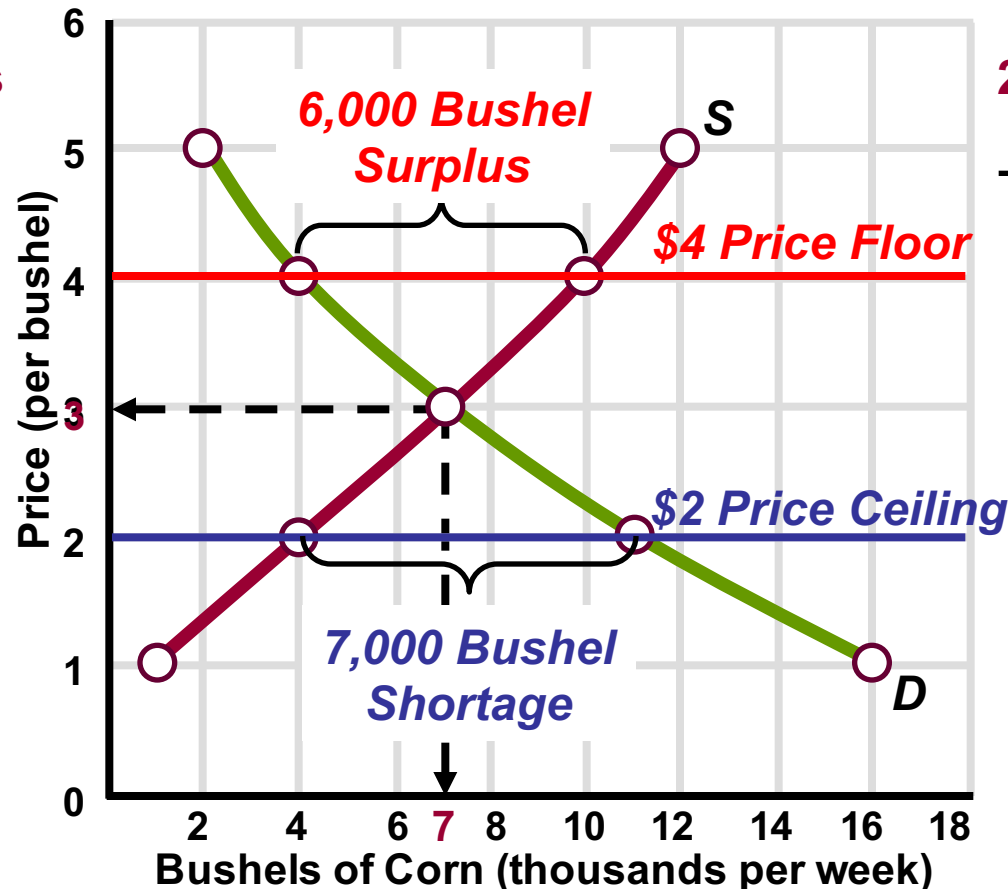
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**Market Demand**  
**200 Buyers**

P	Q <sub>d</sub>
\$5	2,000
4	4,000
3	7,000
2	11,000
1	16,000

**Market Supply**  
**200 Sellers**

P	Q <sub>s</sub>
\$5	12,000
4	10,000
3	7,000
2	4,000
1	1,000



Key Terms



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# Market Equilibrium

- Changes in Demand
- Changes in Supply
- Changes in Equilibrium
- Efficient Allocation
  - Productive Efficiency  
(lowest cost, Min ATC)
  - Allocative Efficiency  
( $MB=MC$ ,  $P=MC$ , max consumer and producer surplus)

Key Terms



End Show





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# Market Equilibrium

	<u>Price</u>	<u>Quantity</u>
• Supply Increase; Demand Decrease	↓	?
• Supply Decrease; Demand Increase	↑	?
• Supply Increase; Demand Increase	?	↑
• Supply Decrease; Demand Decrease	?	↓

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# Government-Set Prices

- Price Ceilings on Gasoline
- Rationing Problem
- Black Markets
- Rent Controls
- Price Floors on Wheat
- Optimal Allocation of Resources



3.2

# Chapter 3

# A Legal Market for Human Organs



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- **Waiting List for Transplants**
- **Demand for Organs**
- **Vertical Supply of Organs**
- **Incentive Role of Market and Up-Sloping Supply**
- **Increases Quantity**
- **Decreases Price**
- **Moral Objections**
- **Increase the Cost of Health Care**
- **Better to Legalize and Regulate?**

Key Terms



End Show

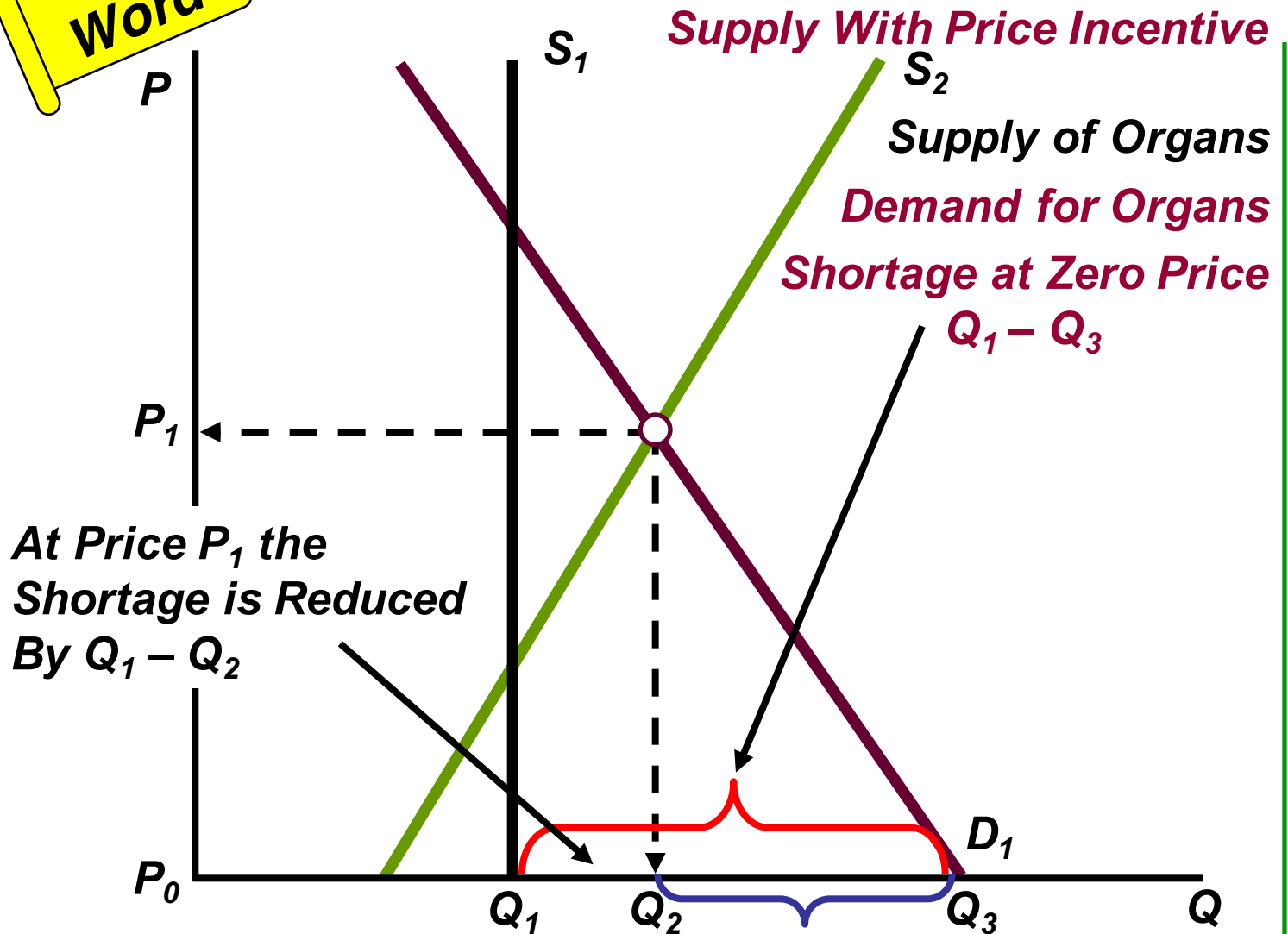


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**Last Word**

# A Legal Market for Human Organs



Key Terms



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## Key Terms Page

- demand
- demand schedule
- law of demand
- diminishing marginal utility
- income effect
- substitution effect
- demand curve
- determinants of demand
- normal goods
- inferior goods
- substitute good
- complementary good
- change in demand
- change in quantity demanded
- supply
- supply schedule
- law of supply
- supply curve
- determinants of supply
- change in supply
- change in quantity supplied
- equilibrium price
- equilibrium quantity
- surplus
- shortage
- price ceiling
- price floor

Key Terms



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## *Next Chapter Preview...*



# The U.S. Economy: Public and Private Sectors

# Chapter 4!!!