**Chapter 3 Supply and Demand**

1. **Competitive Market**

* Number of buyers: \_\_\_\_\_\_\_ and number of sellers \_\_\_\_\_\_\_\_
* Who can influence the market price \_\_\_\_\_\_\_\_
* Goods offered for sell are \_\_\_\_\_\_\_\_

Are there non-competitive markets?

2. *Demand* (D): amount a buyer is \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_ to buy *at all possible prices*.

*Quantity demanded* (Qd): amount a buyer is \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_ to buy *at one price*.

Demand schedule

|  |  |
| --- | --- |
| **Price of large pizza** | **Quantity Demanded Qd** |
| **$5** | **8** |
| **$10** | **4** |
| **$15** | **2** |
| **$20** | **1** |
| **$25** | **0** |

**Law of demand**: As price increases, Qd \_\_\_\_\_\_\_; as price decreases, Qd \_\_\_\_\_\_\_\_.

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Demand curve:

Price

Quantity

* Factors that cause demand to change:

a. Income of buyers

b. Taste and preference

c. Price of complements

Complements -

d. price of substitutes

Substitutes –

e. expectation

* D vs Qd

Rule 1. Changes in price cause changes in Qd; (move along the same D curve)

Rule 2. Changes in other factors cause changes in demand. (D curve shifts)

Principles of Macroeconomics

Classroom Activity

Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

A. Kermit is planning to buy silicone wristbands for Piggy’s birthday. He will buy 2 wristbands if the price is $4 each. Locate Kermit’s plan in the diagram.

B. At the store in Sesame Street, Kermit learns that the wristbands are on sale at $2 each. Kermit decides to buy 4 wristbands. Locate Kermit’s purchase in the diagram.

C. Based on the information above, develop Kermit’s demand curve in the diagram.

D. Refer to the situation above, Kermit buys more wristbands as the price decreases. In economics, the increased amount bought due to a lower price is called

a) increase in demand

b) increase in quantity demanded

c) both

E. One month later, Kermit has a promotion with a salary raise. He wants to buy some wristbands for his friends. He is thinking to buy 8 wristbands if the price is $2, or buy 4 if the price is $4. Develop Kermit’s new demand curve in the diagram. Is Kermit’s plan differs from the original demand curve?

F. Refer to the situation in E. Kermit plans to buy more wristband after his income increases. In economics, this increase is called   
a) increase in demand

b) increase in quantity demanded

c) both

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3. Supply (S): the amount of goods that sellers are willing and able to produce for sale *at all possible prices.*

Quantity supplied (Qs): the amount of goods that sellers are willing and able to produce for sale *at one price*.

\*Supply schedule

|  |  |
| --- | --- |
| **Price of large pizza** | **Quantity Supplied Qs** |
| **$5** | **0** |
| **$10** | **50** |
| **$15** | **100** |
| **$20** | **150** |
| **$25** | **200** |

\*Law of supply

As price increases, Qs increases; as price decreases, Qs decreases.

\*Supply Curve

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Price

Quantity

\* Factors that cause supply to change

a) Technological improvement

b) The price of inputs

(Inputs – resources used to produce goods and services.)

Price of inputs = costs of production

c) Price of related goods

d) Number of sellers (producers)

e) Expectations

\* Market demand and market supply

Sum all individual Qd/Qs at the same price to get the market demand/supply.

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| **Price of the Good** | **Aaron** | **Angela** | **Austin** | **Alyssa** |  |
| $0.00 | 20 | 16 | 10 | 8 |  |
| 0.50 | 18 | 12 | 6 | 6 |  |
| 1.00 | 14 | 10 | 2 | 5 |  |
| 1.50 | 12 | 8 | 0 | 4 |  |
| 2.00 | 6 | 6 | 0 | 2 |  |
| 2.50 | 0 | 4 | 0 | 0 |  |

4. Market

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| --- | --- | --- | --- | --- |
| Price | Qd  (000’s) | Qs  (000’s) | Market condition | Pressure on price |
| $5 | 20 | 0 |  |  |
| $10 | 15 | 5 |  |  |
| $15 | 10 | 10 |  |  |
| $20 | 5 | 20 |  |  |

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Price

Quantity

5. Changes in Market Equilibrium

Step 1. Draw the supply and demand diagram

Step 2. Identify the factor that change the market

Step 3. Which side of the market got affected, D or S? Increase or decrease?

Step 4. Indicate the change in the diagram

Step 5. Report the change in equilibrium price and equilibrium quantity

Case 1. How would an increase in income affect

the restaurant meals market?

Case 2. What would happen to the cheese market

if the price of milk increases?

Case 3. What would happen to the pizza market if

the price of flour decreases?

Case 4. Russians like chicken legs produces in USA

and they import a lot. How would this affect the

chicken leg market?

Classroom activity Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Step 1. Draw the supply and demand diagram

Step 2. Identify the factor that change the market

Step 3. Which side of the market got affected, D or S? Increase or decrease?

Step 4. Indicate the change in the diagram

Step 5. Report the change in equilibrium price and equilibrium quantity

Using the 5 steps, analyze and answer the following question:

Recently more people shop online instead of shopping at stores. How would this online shopping affect the delivery market?