

Chapter 3: Demand and Supply



By Wayne Geerling
Monash University

1

Markets and the Efficient “Maeklong Outdoor Market”

2

Fundamentals of Markets

- **Market**
 - Place where buyers and sellers meet
 - Doesn't have to be a physical place

3

What's Your Price? (Law of Demand)

- — holding all else constant, when the price of a product , the quantity demanded of the product will (& vice versa).

4

**What is the most you would
pay to see a concert at Rod
Laver?**

5

Shifts in Demand

- Movement along a demand curve:
 - Caused by a change in the
 - Inverse relationship between price & QD
- Shift in demand:
 - Caused by changes in
 - Entire demand curve will shift to the or
 - Examples include: change in income, in tastes, in the price of related goods, number of buyers

6

1. Income

- Normal good
 - Good in which we buy more of when we get more income
- Inferior good
 - Good in which we buy less of when we get more income

7

Normal v Inferior Goods

8

2. Price of Related Goods

- Complements
 - Goods & services used
- Substitutes
 - Goods & services that can be used in of each other

9

Emma, Le Trefle

10

Complements v Substitutes

11

Movement Along a Demand Curve

P

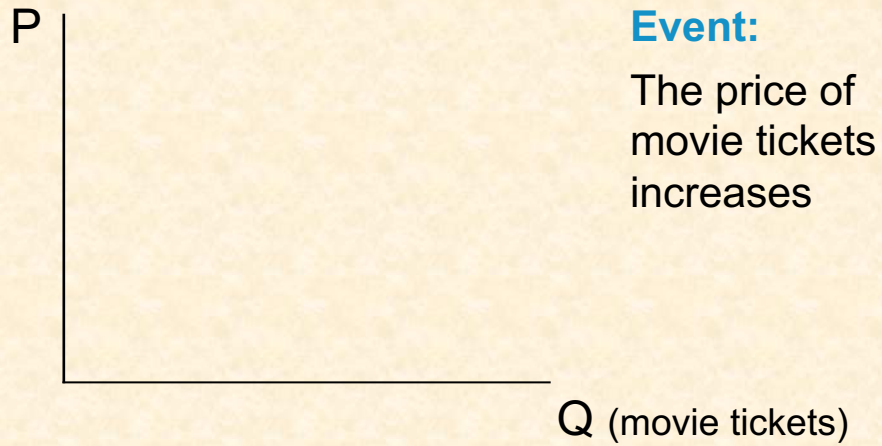
Event:

The price of
Milk falls

Q (Milk)

12

Movement Along a Demand Curve



13

Change (Shift) in Demand



Poll Everywhere Question

- **You work at a restaurant which sells chicken parmigiana. Which of the following would decrease the demand for their parmigiana?**
- A) An increase in the price of a complementary good
- B) An increase in the price of the parmigiana from \$15 to \$30
- C) Both would!

15

Karaoke Experiment (Law of Supply)

- Law of supply: holding all else constant, in the price of a good causes an in the quantity supplied (and vice versa)

16

Using Karaoke to Teach Law of Supply

- What amount of money would it take to get you to sing for 2 minutes Karaoke style in class right now?

17

**How much money would it take to
get you to sing in in class?**

Price

0

Quantity of
singers

18

More on Supply

- By changing the question we alter the supply relationship.
- What are places where you would be more comfortable singing?
- What are places where it would be more embarrassing/uncomfortable to sing?

19

Incentives Influence Singing

Price

0

Quantity of
singers

20

Shifts in Supply

- Movement along a supply curve
 - Caused by a change in the
 - relationship between &
- Shift in supply
 - Caused by factors
 - Entire supply curve will shift to the or
 - Examples include:

21

What causes a shift in supply?

- 1. Input prices: relationship
between input prices & supply.

22

Change (Shift) in Supply

Price
(per cup of coffee)

Quantity
(cups of coffee)

23

**Complementary Goods in the
Dairy Queen Commercial
“They Were Made for Each
Other”**

24

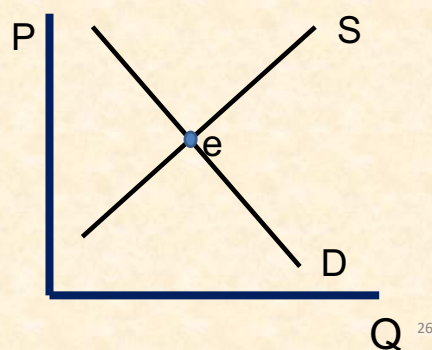
Chapter 3 Review Question 2

- **Circle the correct answer**
- In the DQ commercial we watched, if the price of the waffle cone piece goes up, then the demand for ice cream
 - **Increases, decreases, or does not change.**
- In general, if the price of whipped cream rises, what happens to the demand for whipped cream?
 - **Increases, decreases, or does not change.**
- In general, if the price of the ice cream used in making a blizzard goes up, what happens to the supply of blizzards?
 - **Increases, decreases, or does not change.**

25

Market Equilibrium

- Market equilibrium: where quantity demanded equals quantity supplied.
- Can be shown graphically or algebraically:
where $Q_d = Q_s$



26

Shortages & Surpluses

- Shortage
 - $Q_d > Q_s$
 - Occurs at any price equilibrium
 - Price will over time toward equilibrium.
Why?
- Surplus
 - $Q_s > Q_d$
 - Occurs at any price equilibrium
 - Price will over time toward equilibrium.
Why?

27

Supply & Demand

Price
(per pound)

Quantity
(pounds per month)

28

Change in Demand v Shift in Demand in *The Hudsucker Proxy*

29

Hudsucker Proxy

The clip nicely shows how markets coordinate prices and eliminate excess supply and excess demand.

Price of
Hula Hoop

Free

Quantity of Hula Hoops

30

Analyzing Changes in Market Equilibrium

- To determine the effects of any event:
 1. Decide whether event shifts
 2. Decide in which direction:
 3. Use supply-demand diagram

31

- **Example 1:** What happens to the price & quantity of bagels when the price of flour increases?
- **Step 1:**
 - S curve shifts left
- **Step 2**
 - The shift causes price to rise & quantity to fall.

32

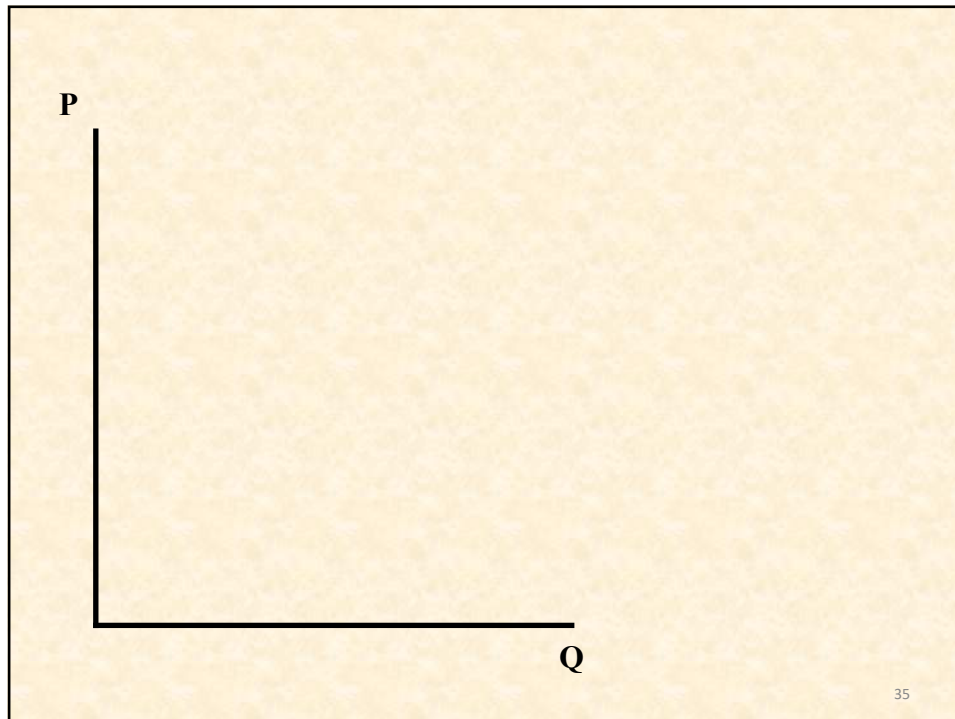
- **Example 2:** What happens to the price & quantity of an inferior good when incomes decreases?
- **Step 1:**
- D curve shifts right
- **Step 2**
- The shift causes price & quantity to rise.

33

Example 3: You are given the following equations

1. Graph
2. Find Equilibrium
3. At a price of find the value of the shortage or surplus.

34



- **Example 4:** What happens to the price and quantity of a product when both the supply and the demand decrease?
- **Step 1:**
- **Step 2**

36

Poll Everywhere Question

- A survey shows that on average 40 people go to the movies when the price is \$4 and 20 people go when the price is \$2.
- Assume $P_1 = \$2$; $Q_1 = 20$.
- Does this violate the laws of supply and demand?

37

Poll Everywhere Question

- Does this violate the laws of supply & demand?
- A) Yes
- B) No, supply shifts left
- C) No, supply shifts right
- D) No, demand shifts left
- E) No, demand shifts right

38