

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

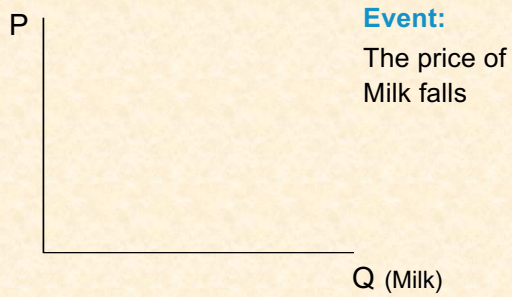
Emma, Le Trefle

10

Complements v Substitutes

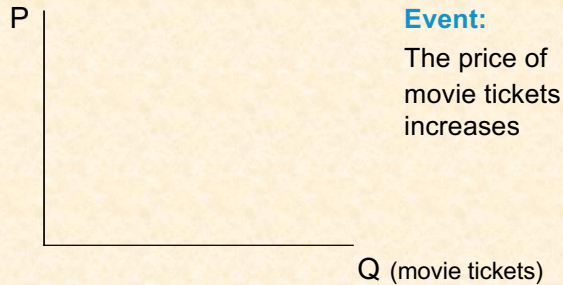
11

Movement Along a Demand Curve



12

Movement Along a Demand Curve



13

Change (Shift) in Demand



14

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)

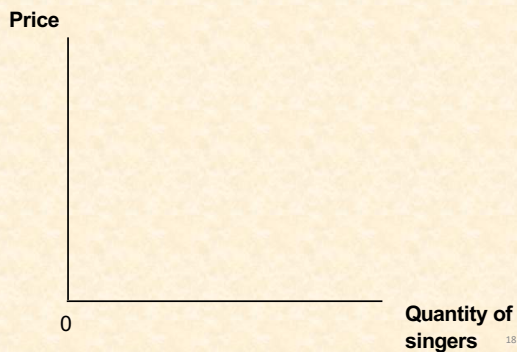
16

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?



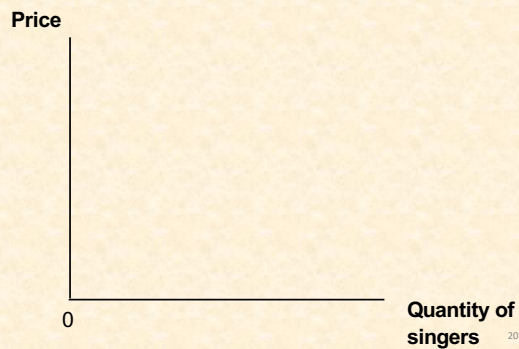
18

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



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

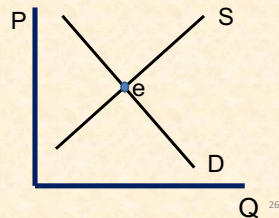
Chapter 3 Review Question 2

- 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 $Q_d = Q_s$

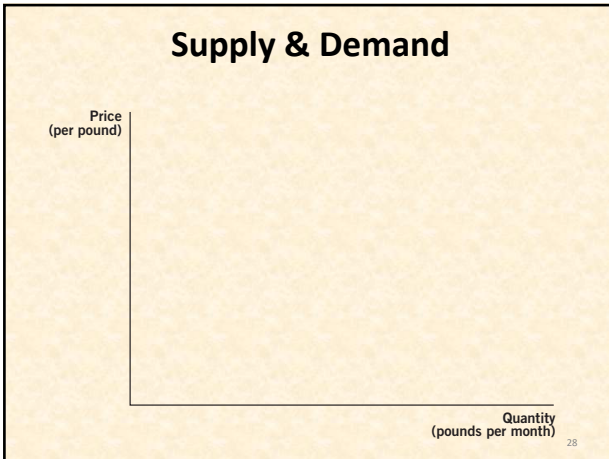


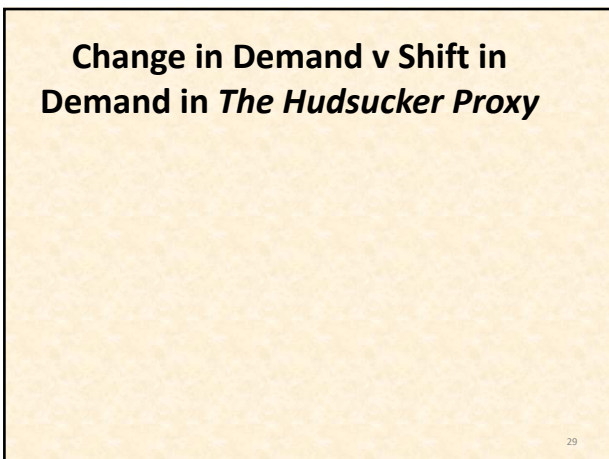
26

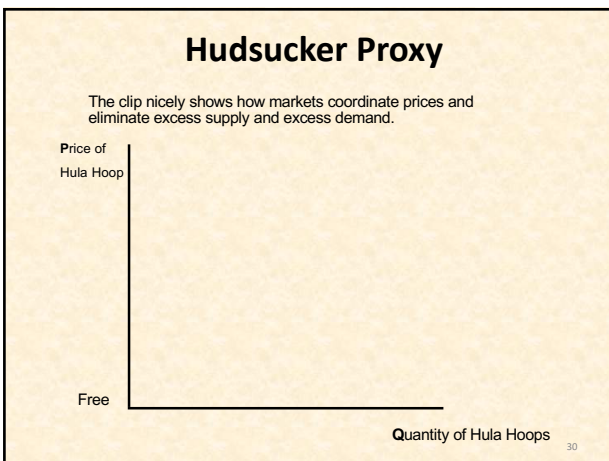
Shortages & Surpluses

- 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







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

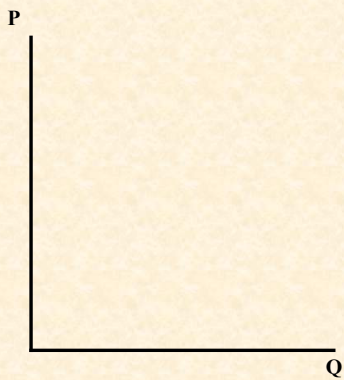
- **Example 2:** What happens to the price & quantity of an inferior good when incomes decrease?
- **Step 1:**
- D curve shifts right
- **Step 2**
- The shift causes price & quantity to rise.

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



35

- **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
