Demand and Supply

2.1 Demand

- The relationship between various prices and the quantity that consumers will buy at that price
- Quantity Demanded - the quantity of a product that consumers are willing to purchase at each price
- Law of Demand - there is an inverse relationship between Quantity Demanded and Price

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<tr>
<th>P</th>
<th>Q</th>
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<tr>
<td>5</td>
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When you move along the Demand Curve you get a Change in the Quantity Demanded

If we add everybody's Demand Curves together we get a Market Demand Curve

When the whole Demand Curve moves we get a Change in Demand
A change in demand happens when the Demand Determinants change.

- **Number of Buyers**
- **Income**
  - With Normal goods as income goes up, Q purchase increases.
  - With Inferior goods as income goes up, Q purchased decreases.
- **Prices of Other Products**
  - **Substitute Products** - a product that can be consumed in place of another.
  - **Complementary Products** - products that are consumed together.
- **Consumer Preferences** - changes in preferences such as fads and trends.
- **Consumer Expectations** - what consumers think will happen to future prices and incomes.

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Diagram:

- **Change in Quantity Demanded**
- **Change in Demand**
P 34 PQ2.1
1abc(draw your own graph)
2abcd
3ab

1
A $1.50 - 8 $1 - 13 $.50 -18
B Yes
C

2
A D inc
B D inc
C D dcr
D D inc

3
2.2 Supply
Supply - the relationship between prices of a product and the quantity supplied at that price

Law of Supply - there is a direct relationship between quantity supplied and price

Supply Curve

A change in the price results in a change in the Quantity Supplied

Changes in Supply
Supply Determinants
- Number of Producers
- Resource Prices
- State of Technology
- Changes in Nature
- Prices of Related Products
- Producer Expectations

2.3 How Competitive Markets Work
Market Equilibrium - where the Supply Curve and the Demand Curve intersect