

Supply and Demand



Glossary

TERM	DEFINITION
law of demand	<i>as the price of goods or services increases, the quantity demanded decreases, and as the price decreases, the quantity demanded increases</i>
quantity demanded	
demand schedule	
market demand schedule	
demand curve	
substitution effect	<i>when consumers react to a price increase by looking for cheaper alternatives to meet the same purpose</i>
income effect	
substitute goods	
law of supply	<i>as the price of goods increases, the quantity supplied goes up, and as the price decreases, the quantity supplied goes down</i>
quantity supplied	
supply schedule	
market supply schedule	
supply curve	
equilibrium	<i>in economics, the condition in which the economic forces of demand and supply are balanced</i>
non-price determinants of demand	
complementary goods	
non-price determinants of supply	
positive externalities	
negative externalities	<i>an effect of an economic action that causes harm or loss to unrelated parties</i>

Objective

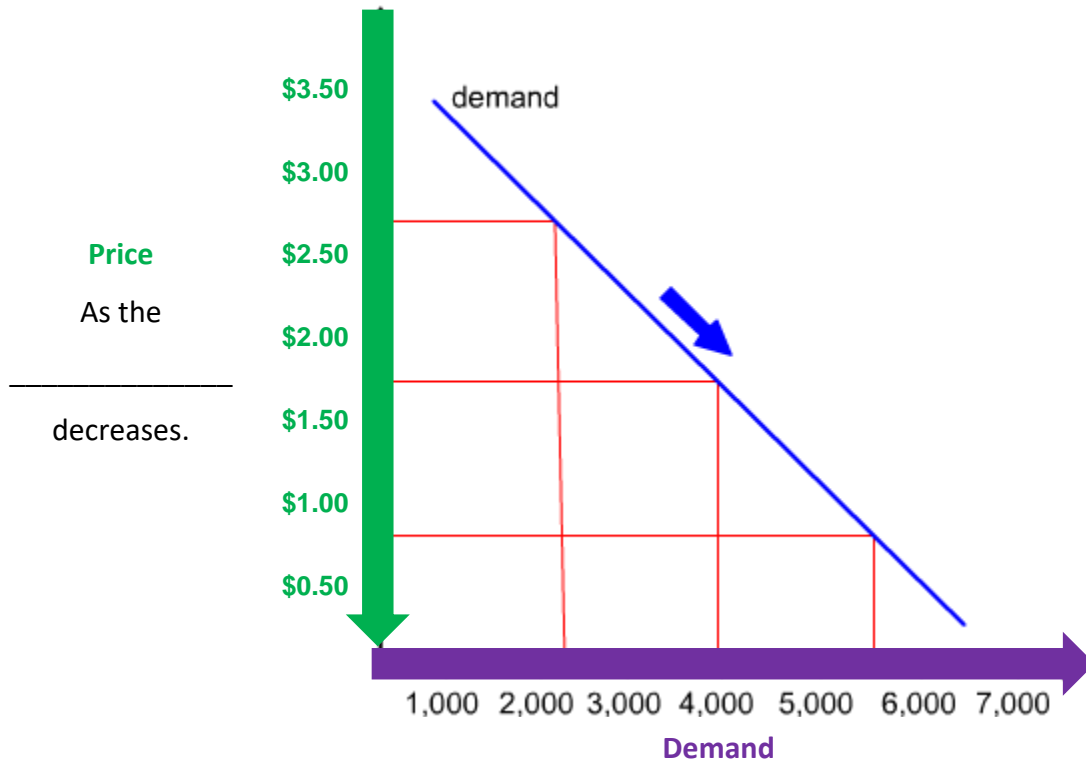
In this lesson, you will

Laws of Supply and Demand

When consumers _____ a product, the price they pay reflects _____ than how much they _____ their purchase. The price is the result of _____ on the part of both the consumer and the _____, or the company that made the item.

Law of Demand

The law of demand describes the _____ between price and demand. It states that as the price of goods or services _____, the quantity demanded _____.



Price
As the

decreases.

The _____ demanded increases.



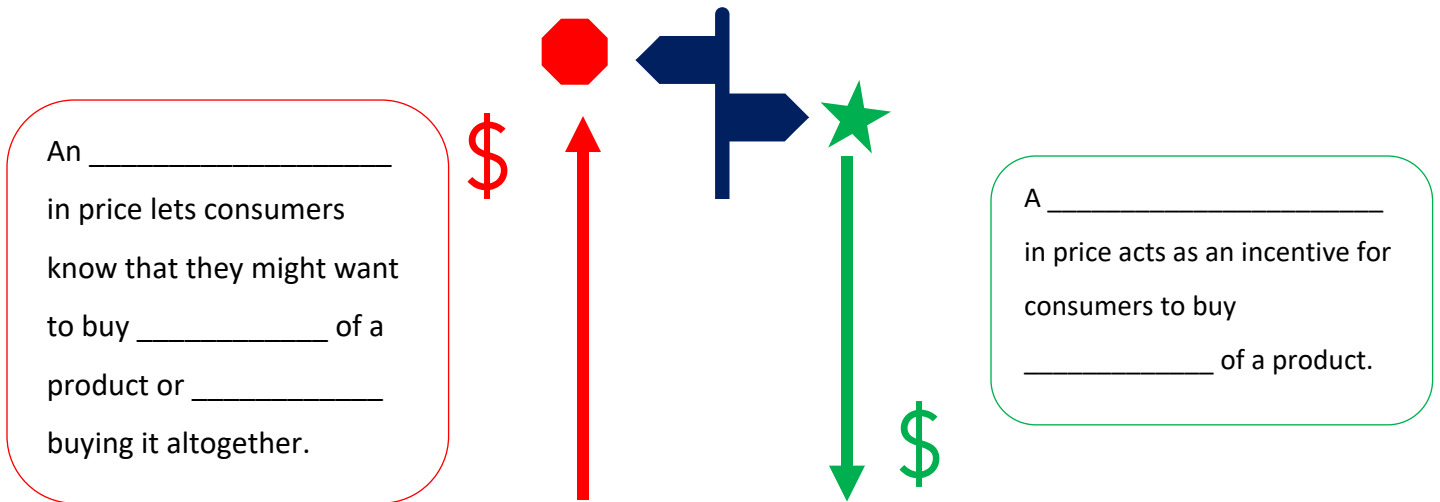
A **demand schedule** is a table showing the demand for a _____ at different prices.

A demand schedule illustrates the demand for a good by _____ consumer, and a market demand schedule shows the quantity demanded by _____ consumers in a market for a good.

! A demand schedule _____ on a coordinate plane is a _____ curve. A demand curve is a _____ representation of the change in _____ demanded for a good in relation to changes in its price. The downward slope indicates the inverse relationship between demand and price. In other words, it shows that as the price _____, the quantity demanded _____.

Price as a Signal

The _____ of demand states that price affects consumers' decisions to buy goods. The price of goods serves as a signal to consumers and producers in a market.



Substitution Effect

! As goods become _____, some consumers look for _____
alternatives to meet the same purpose. This is the _____ effect. The
alternative _____ are known as substitute goods.

Income Effect

The income effect is a _____ in consumption caused by the effect of _____ on the
consumer's real income or spending.

! An increase in the _____ of a product forces consumers either to buy _____ or to
give up the product entirely. If they buy the product at the _____ rate, they must
_____ spending on other products.

Law of Supply

The law of supply states that



as the price of goods increases, quantity supplied goes up



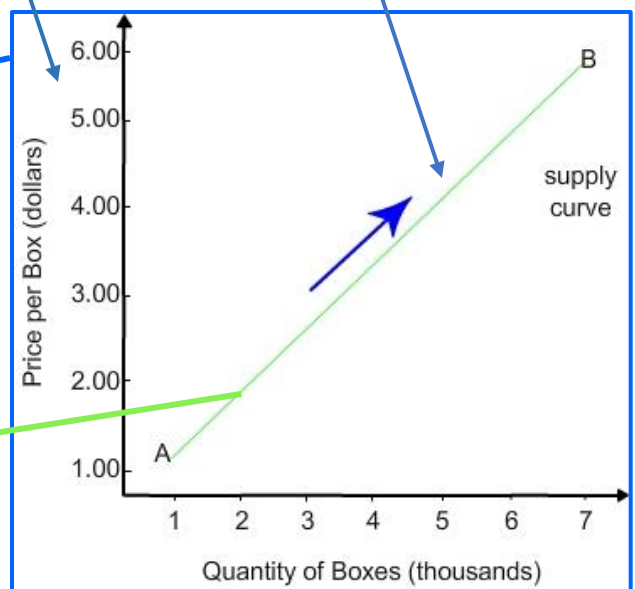
The law of supply shows how _____ affects the _____ supplied.

A **supply schedule** is a table that gives the prices of goods and the quantity supplied by a producer at each price.

Price per Box	Quantity of Boxes (thousands)
\$1.00	1
\$2.00	2
\$3.00	3.6
\$4.00	4.8

This is a **supply schedule**. When plotted on a **coordinate plane**, the result is a **supply curve**.

A **market supply schedule**



The **upward slope** of a **supply curve** indicates the direct relationship between quantity supplied and price. In other words, it shows that as prices rise, quantity supplied increases. Notice how the change in price causes the quantity supplied to increase from point A to point B on the **supply curve**.

Price as a Signal

An increase in price is a _____ signal for producers because it indicates that there is room for _____ producers in the market. Increasing prices also act as an _____ for existing producers to produce more goods to obtain _____ revenue and profit. A _____ in price is a signal to _____ or stop production.

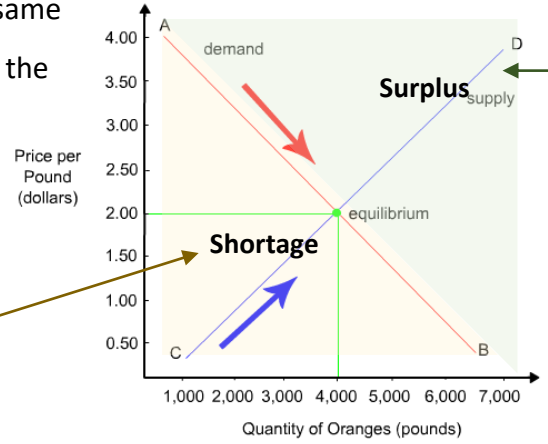


Equilibrium

When we _____ the demand and supply curves on the same _____, they _____ at a point. This is the equilibrium point.



Under Above the equilibrium point on the graph, quantity demanded is more than quantity _____. That means there is a _____.



Under Above the equilibrium point on the graph, quantity supplied is greater than quantity _____. That means there is a _____.

We find the equilibrium price by looking at the point where the _____ and _____ curves _____. However, sometimes the equilibrium price _____. This happens when either the _____ curve or the demand _____ moves.

Changes in Supply and Demand

Non-Price Determinants of Demand

A change in _____ of the non-price determinants of demand causes a _____ in the demand curve itself.



Some non-price determinants of demand:



Consumer tastes and preferences: Sometimes the demand for a particular product increases simply because it is popular at the time.



Demographic changes:



Expectations of future prices: Consumers may stock up on a product if they expect prices to increase in the future. Alternatively, they may postpone buying a product if they expect the prices to fall.



Income:

! Prices of Related Goods

Related Goods	
substitute goods	\$ ↑ ↑ If the price goes _____, it may _____ the demand for the original good.
	\$ ↓ ↑ If the price goes _____, it may _____ the demand for the original good.
complementary goods (goods that are used together like cars and gasoline)	\$ ↑ ↓ If the price goes _____, it may _____ the demand for the good.
	\$ ↓ ↑ If the price goes _____, it may _____ the demand for the good.

Right Shift in Demand Curve

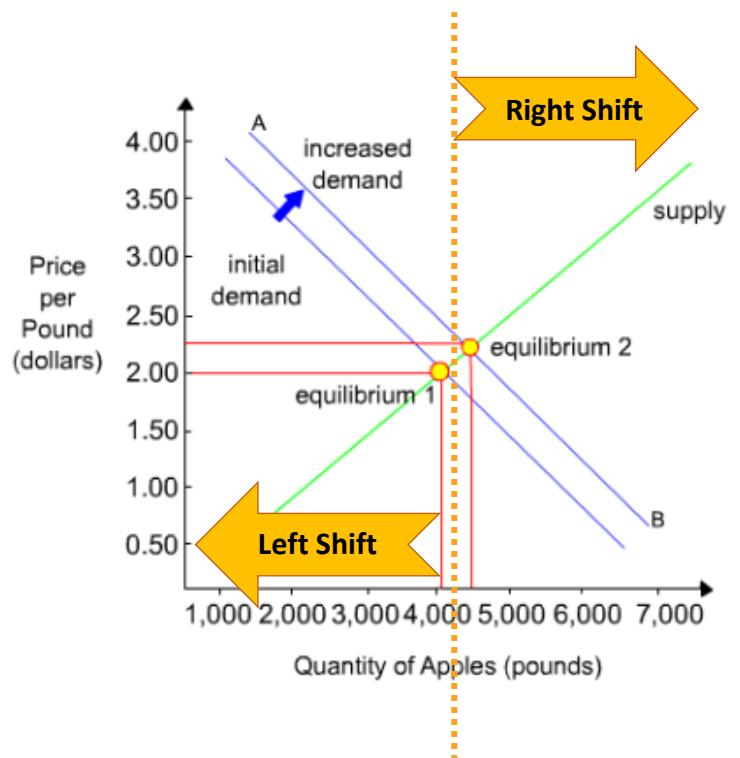
When consumer _____ ↑ increases, the demand curve _____ to the → right. That _____ the equilibrium point to the → _____, resulting in ↑ higher prices and an ↑ increase in the quantity supplied of goods.

Left Shift in Demand Curve

The demand curve shifts to the ← _____ as consumer demand ↓ _____ . That pushes the equilibrium point to the ← left, resulting in ↓ _____ prices and a ↓ _____ in the quantity supplied of goods.

Non-Price Determinants of Supply

A change in _____ of the **non-price determinants of supply** causes a _____ in the supply curve itself.



! Some non-price determinants of supply:



Changes in resource cost: An increase in the cost of the resources used to make a product can reduce supply, while a decrease in resource cost can increase supply.



Technology:



Number of producers:

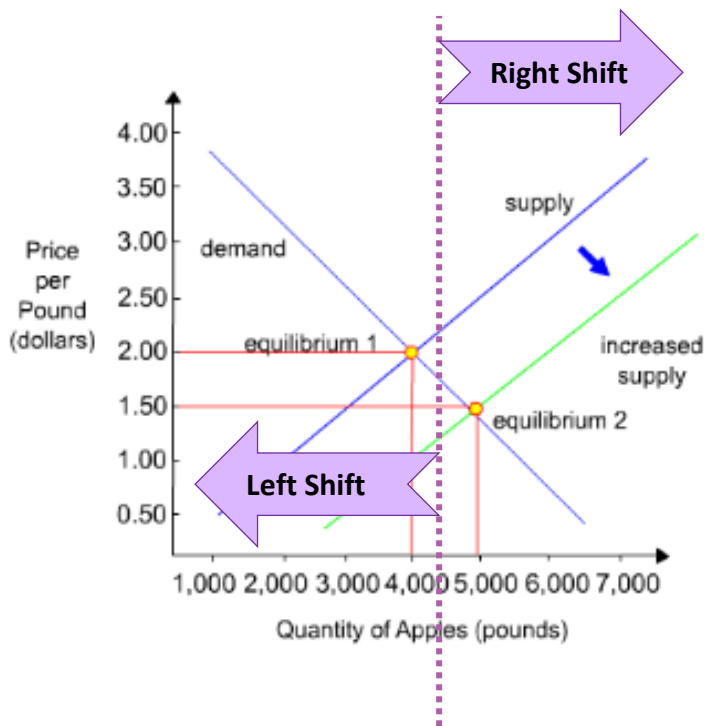


Government intervention: Government intervention in the form of taxes or subsidies can affect supply. Subsidies reduce production costs and allow firms to produce more goods.



Future expectation of prices: If producers expect the price to go up in the near future, they may wait to supply more goods until the price increases, allowing them to earn more revenue.

Right Shift in Supply Curve



An **↑** increase in _____ shifts the supply curve to the **→** _____ because it brings **↑** more _____ into the market. This shift brings **↓** _____ the equilibrium _____ of the product.

Left Shift in Supply Curve

A **↓** decrease in _____ shifts the supply curve to the **←** _____ because it brings **↓** fewer goods into the _____. A **↓** decrease in _____ pushes **↑** up the _____ price of the product.

Externalities

Externalities are _____ of economic activities that affect an _____ party.

positive externalities	<ul style="list-style-type: none">➤ <i>a new factory opens up in a town</i>➤ <i>the factory attracts many workers from foreign places</i>➤ <i>the arrival of immigrants creates a demand for rental housing</i>➤ <i>people begin renting out rooms in their houses to workers and earning a good extra income</i>
negative externalities	<ul style="list-style-type: none">➤➤➤

While a market-based _____ allows for economic _____ for both consumers and producers, this freedom can result in positive or negative _____ for society.

Summary

Explain the external factors that drive increases to quantities supplied and prices paid.