What is Demand?

Demand is the quantity of a product that consumers are willing and able to buy at a certain price.

Only people with

- Desire
- Ability
- Willingness to buy a product can compete with others who have similar demands.

The Law of Demand

- If the price of an item is too high, there will be little demand for it, because most consumers won't be *willing* or *able* to pay for it.
- The higher the price of an item, the lower the demand for it will be.
- If a company can't sell its product at the price it has chosen, it will be forced to lower the price in order to sell its supply

Elastic

- Economists say that demand is ***elastic*** when a given change in price causes a relatively larger change in quantity demanded.

- Elasticity is a measure of responsiveness that tells us how a dependent variable such as *quantity* responds to a change in an independent variable such as price.

Elastic vs. Inelastic Demand

- Bread is not very sensitive to price changes, the market for bread is an example of *demand inelasticity*. People will buy about the same amount of bread, no matter what the price.

Elastic vs. Inelastic Demand

- If the price of bread increases slightly, the demand will not decrease much, if at all.
- Most people consider bread a necessity, so they will give up other things in order to afford it.
- If the price of bread decreases, demand will not change much either, because bread is perishable and there is only so much one can eat in short time it remains fresh.

Demand Elasticity

- The extent to which a change in price causes a change in the quantity demanded.

Elasticity

- Demand for luxury items is more elastic, or sensitive to changes in price.
- If the price of chocolate candy decreases, the demand is likely to increase.
- Demand elasticity also depends on the tastes of individuals
- If you don’t like chocolate, you will not purchase any, no matter what they price; Your demand is inelastic.

What is Supply?

- Supply is the total quantity of a product that producers are willing to make and sell at a certain price.

The Law of Supply

Example:

- *When a company makes a new item, such as a video game, it has to decide how many games to make and what price to charge. The company needs to charge a price high enough to earn a profit.* ***The higher the price a company can charge, the more it is willing to supply.***

Supply

- Law of Supply
  - The principle that suppliers will normally offer more for sale at high prices and less at lower prices

Supply

- Supply – The amount of a product that would be offered for sale at all possible prices that could prevail in the market.

Supply Schedule

- A listing of the various quantities of a particular product supplied at all possible prices in the market.

Supply Curve

- A graph showing the various quantities supplied at each and every price that might prevail in the market

Quantity Supplied

- The amount that producers bring to market at any given price.

Change in Quantity Supplied

- The change in amount offered for sale in response to a change in price.

Change in Supply

- A situation where suppliers offer different amounts of products for sale at all possible prices in the market.

Determinants of Supply

Things that cause a new curve (Change in Supply)

- Cost of Inputs/Resource Prices
- Technology
- Government's Influence on Supply
  - Taxes and Subsidies
  - Government Regulations
- Future Expectations of Prices
- Number of Sellers/Suppliers in the market

Cost of inputs/Resource Prices

- Cost of inputs/Resource Prices
  - Costs of resources used in production help determine costs of production incurred by firms.
  - If input/resource prices are more expensive to producers, they supply less
  - If input/resource prices are less expensive, producers will supply more.

Technology

- Improvements in technology (techniques of production) enable firms to produce units of output with fewer resources, making it more economical to produce.

Taxes and Subsidies

- Taxes are an expense to a business
  - Increased taxes with cost producers more, therefore, increased taxes will increase production costs and decrease supply
  - Decreased taxes will decrease production costs and increase supply
  - Subsidies cut production costs for businesses, so producers will supply more when the government give them a subsidy.

Price Expectations

- Changes in expectations about future price of a product may affect the producer's current willingness to supply that product.
  - Farmers anticipating a higher wheat price in near future might withhold some of current wheat harvest from market, causing a decrease in current supply of wheat

Government Regulations

- Expense to a business
  - Producers will tend to produce less due to increased production costs when government imposes regulations

Number of Sellers

- The larger the number of suppliers, the greater the market supply
- As more firms enter industry, the supply curve shifts to the right.
- If firms leave the market, supply will decrease.

Productivity

- Motivated workers tend to be more productive.
- Unmotivated workers product less

Price Floors

Sometimes, the government intervenes in a market to prevent the laws of supply and demand from determining price

To help support dairy farmers, the government might establish a **price floor,** a minimum allowable price, for milk

Price Floors (cont.)

- Because price is kept “artificially high,” farmers will increase the supply they are willing to produce, even though demand is not increasing.
- **Price floors lead to surpluses**
- Minimum Wage: When the minimum wage goes up, the demand for labor goes down, leading to a surplus of labor, an increase in unemployment.

Price Ceilings

- The government might also establish a **price ceiling**, the highest price that can be charged for a particular good or service.
- Example: A price ceiling is rent-controlled apartments. When rents are kept artificially low, many landlords will decide that it is not worthwhile to rent out apartments.
- As a result, the supply of apartments will decline, **leading to a shortage**.
- In general, price ceilings lead to shortages.