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# What is a market?

**Market:** : an institution or mechanism, which brings together buyers ("demanders") and sellers ("suppliers") of particular goods and services.

**EK:** Individuals often respond to incentives, such as those presented by prices, but also face constraints, such as income, time, and legal and regulatory frameworks.

# DEMAND

Demand-

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Demand-

The number of units of a good or service that a buyer

# DEMAND

Demand-

The number of units of a good or service that a buyer is willing

# DEMAND

## Demand-

The number of units of a good or service that a buyer is willing and able

# DEMAND

## Demand-

The number of units of a good or service that a buyer is willing and able to purchase **at various** prices.

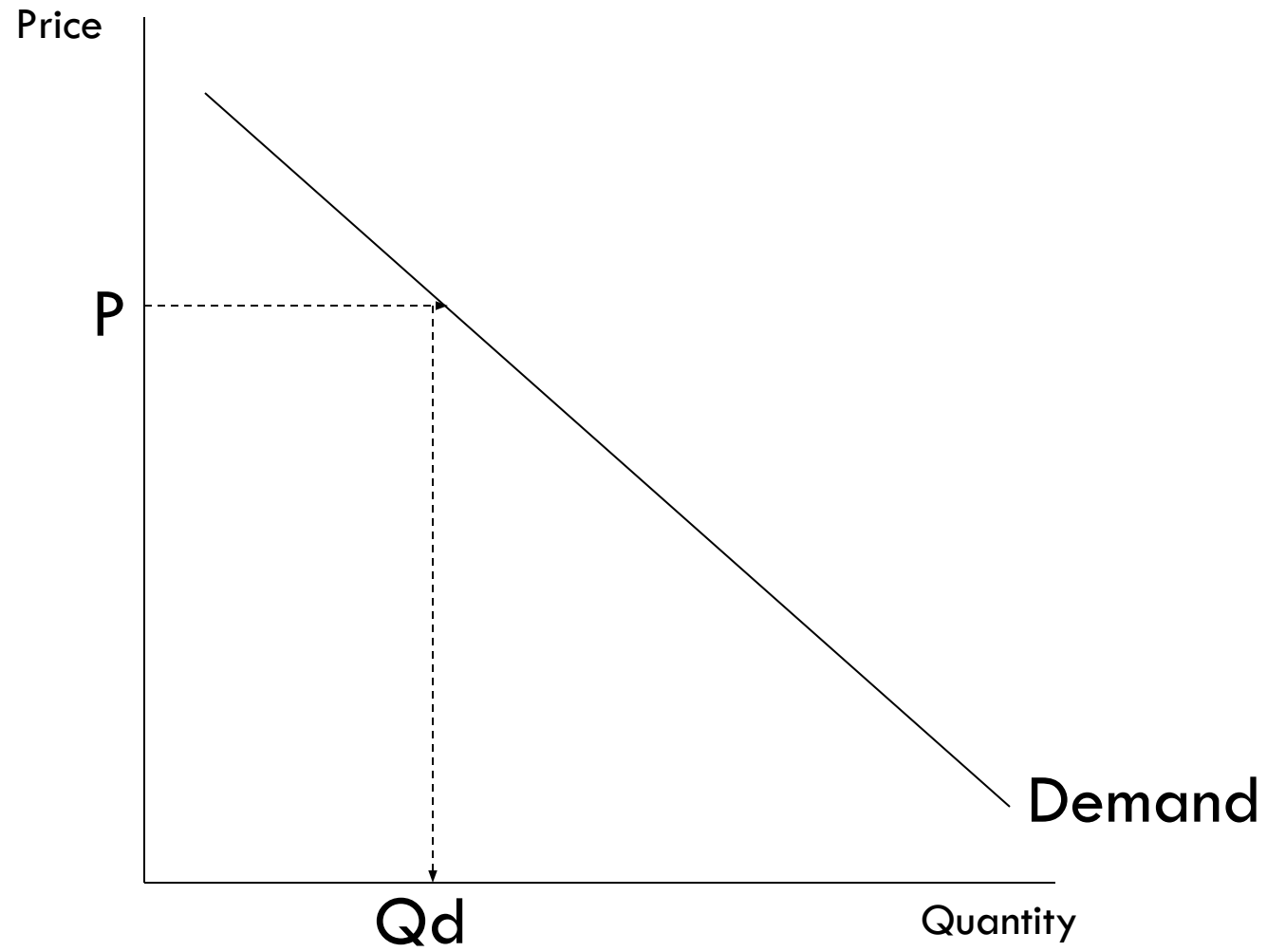
# QUANTITY DEMANDED

## Quantity Demanded-

The number of units of a good or service that a buyer is willing and able to purchase at **a specific** prices.



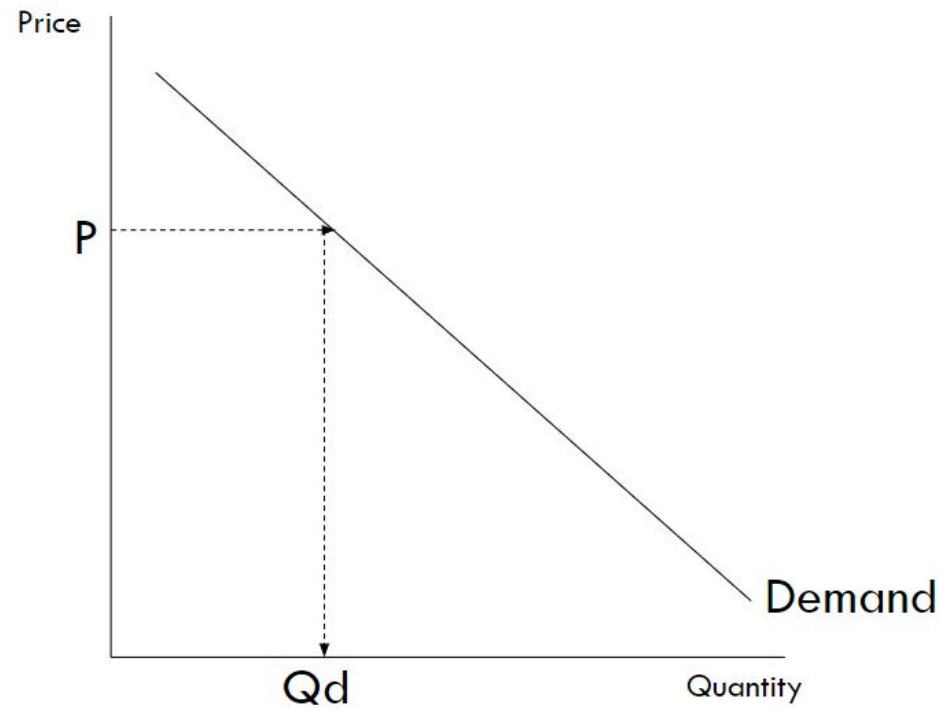
# Demand v Quantity Demanded



# DEMAND VS QUANTITY DEMANDED

Demand is the entire curve.

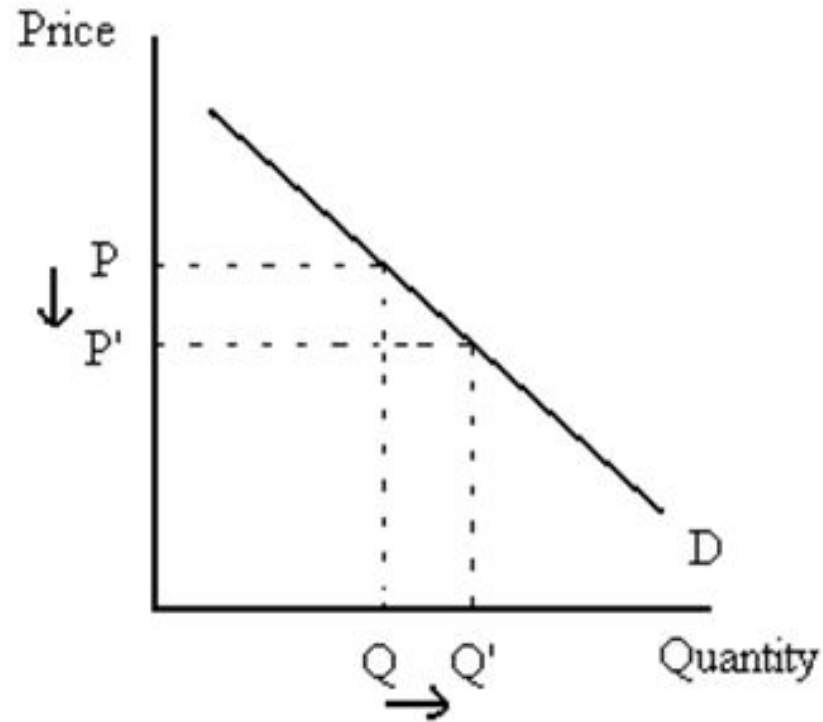
Quantity demanded comes from a point on the curve.



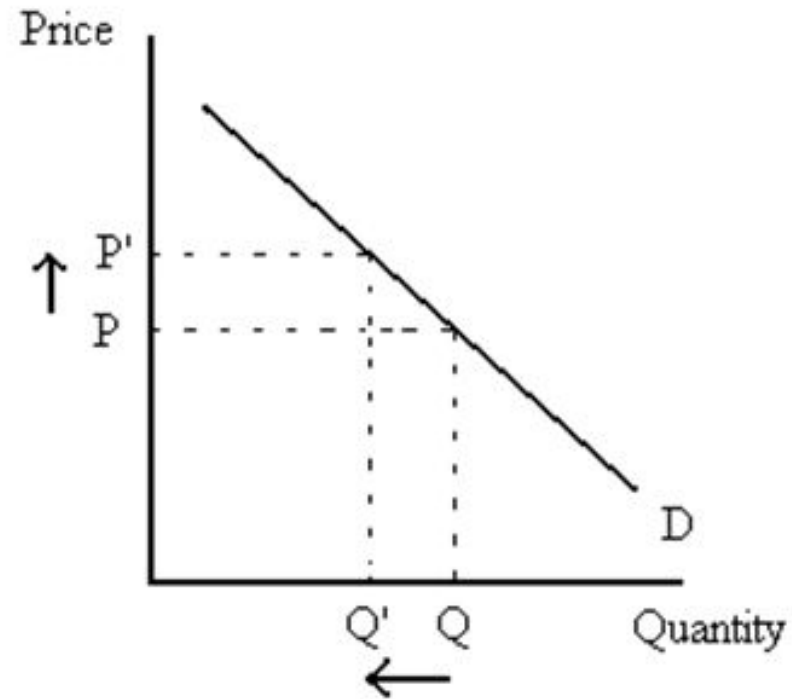
# DEMAND SCHEDULE

Price (P)	Quantity (Q water bottles)
\$5	0
\$3	1
\$2	7
\$1	24
\$.50	40
\$.05	82

**The law of demand:** a change in the own-price causes a change in quantity demanded in the opposite direction and movement along a demand (marginal benefit) curve.



An decrease in price leads to a increase in quantity demanded.



An increase in price leads to a decrease in quantity demanded.

# WHY IS THE DEMAND CURVE DOWNWARD SLOPING

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The Law of Diminishing Marginal Utility.

The Substitution Effect

The Income Effect

# THE LAW OF DIMINISHING MARGINAL UTILITY

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Diminishing marginal utility: The more of a good or service that a consumer consumes, the less additional satisfaction they derive from consuming the next unit.

Examples:

Pizza

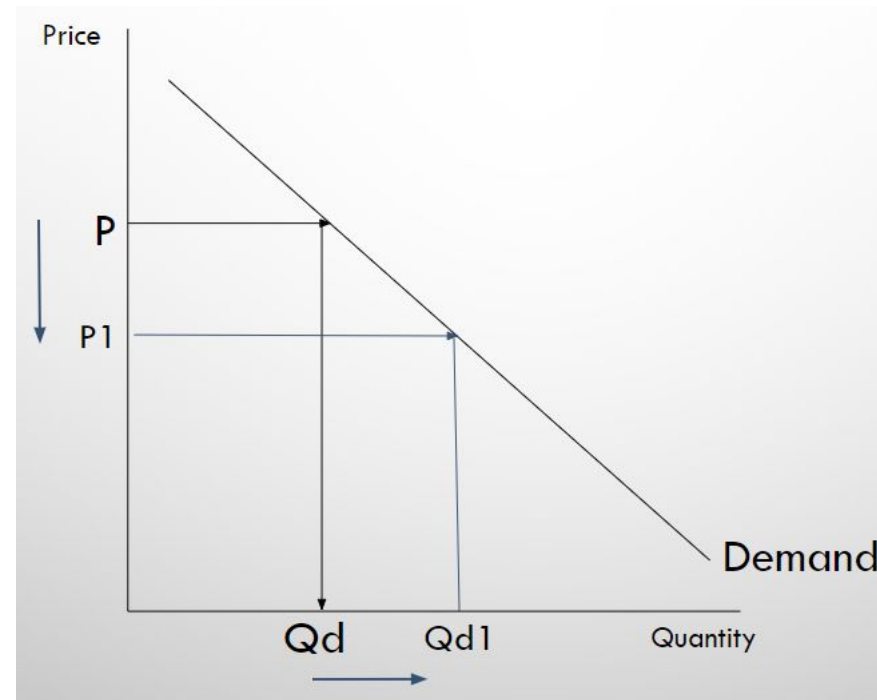
Doughnuts

Television shows

Money?

# THE LAW OF DIMINISHING MARGINAL UTILITY

Since consumers experience diminishing marginal utility the price has to go down for them to purchase additional units.





## **THE INCOME EFFECT**

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If the price of a good decreases, consumers can now purchase more of that good (on their limited income) without giving up other products.

# THE SUBSTITUTION EFFECT

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If the price of a good decreases, you have an incentive to substitute the cheaper good for similar goods, which are now relatively more expensive.

The price of frozen pizza goes down so you purchase more frozen pizzas and less frozen chicken nuggets.

# MARKET DEMAND CURVES

A demand curve is the summation of individual demand curves.

PRICE/CANDY BAR	DAVID	DEVIN	KAY	MARKET DEMAND
\$3	0	1	2	
\$2	2	2	3	
\$1	2	4	6	
\$.50	3	6	9	

# MARKET DEMAND CURVES

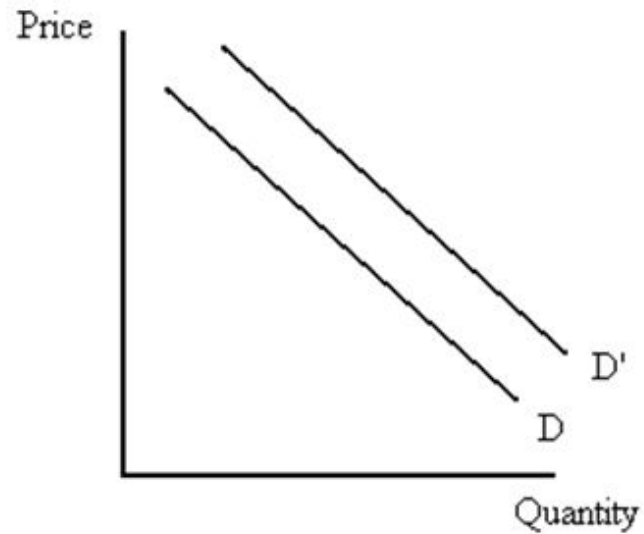
A demand curve is the summation of individual demand curves.

PRICE/CANDY BAR	DAVID	DEVIN	KAY	MARKET DEMAND
\$3	0	1	2	3
\$2	2	2	3	7
\$1	2	4	6	12
\$.50	3	6	9	18

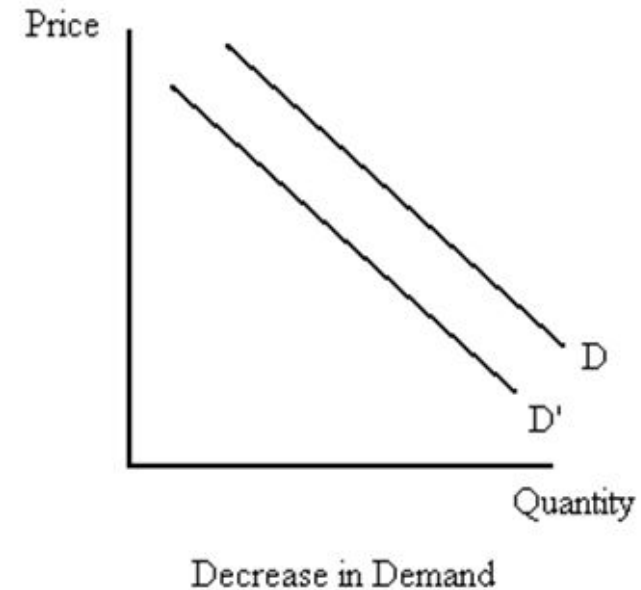
# DETERMINANTS OF DEMAND

The determinants of demand cause the demand curve to shift.

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An increase in demand is shown by a rightward shift of the demand curve.



A decrease in demand is shown by a leftward shift of the demand curve.

# DETERMINANTS OF DEMAND

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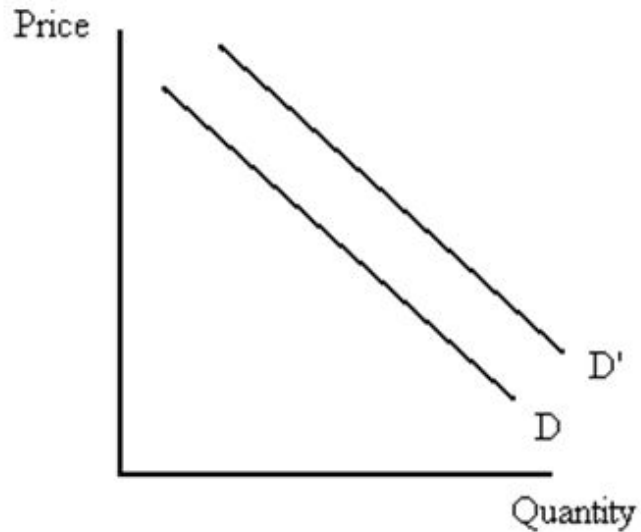
1. Consumer income: Increased income leads to an increase in demand. (Shift right)

A decrease in income leads to a decrease in demand. (Shift left)

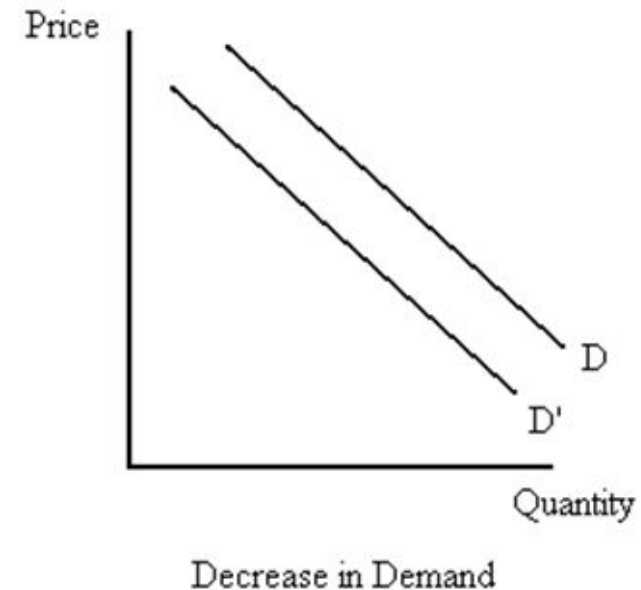
# DETERMINANTS OF DEMAND

1. Consumer income: Increase income leads to increased demand. Decreased income leads to decreased demand.

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INCREASE IN CONSUMER INCOME



DECREASE IN CONSUMER INCOME

# DETERMINANTS OF DEMAND

But wait! This holds true for most goods called normal goods. However, some goods are considered inferior goods.

EX: CANNED MEAT, STORE BRAND FOOD

The demand for inferior goods shifts opposite of the demand for normal goods. When income increases, people consume less inferior goods (Demand curve shifts left). When incomes decrease people consume more inferior goods. (Demand curve shifts right).



# DETERMINANTS OF DEMAND

2. Taste and preference: Increase taste and preference leads to an increase in demand. (shift right) You want more at all prices.

A decrease in taste and preference leads to a decrease in demand. (shift left)

# DETERMINANTS OF DEMAND

## 3. Price of a complementary good:

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Two goods are complementary when you usually buy one with the other.

Ex: Milk/Cereal, Peanut Butter/Jelly, Chips/Salsa,  
Green Eggs/Ham

When the price of one good changes, it affects the demand for its complement.

# DETERMINANTS OF DEMAND

## 3. Price of a complementary good:

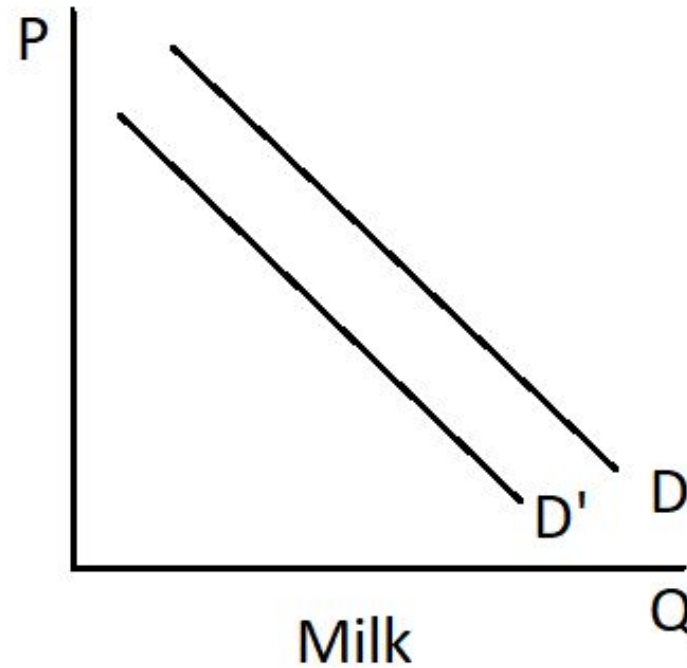
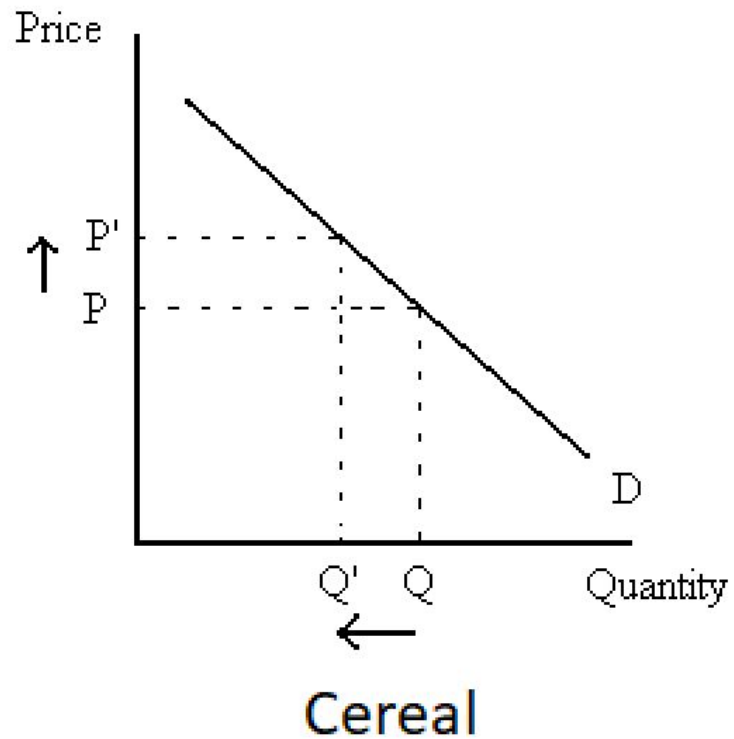
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If the price of cereal goes up, we buy a lesser quantity of cereal. This will then cause the demand for its complement (milk) to decrease. (Less milk at all prices.)

# DETERMINANTS OF DEMAND

## 3. Price of a complementary good:

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# DETERMINANTS OF DEMAND

## 4. Price of a substitute good:

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Two goods are substitutes when you can replace one for the other.

Ex: Apple Juice/Orange Juice, Coke/Pepsi,  
Beef/Chicken

When the price of one good changes, it affects the demand for its substitute.

# DETERMINANTS OF DEMAND

## 4. Price of a substitute good:

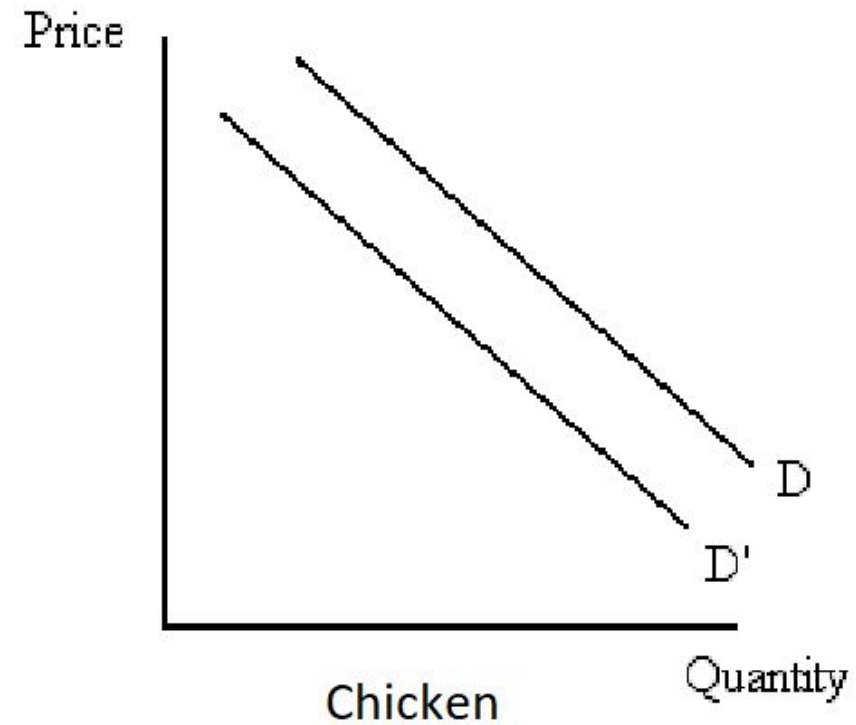
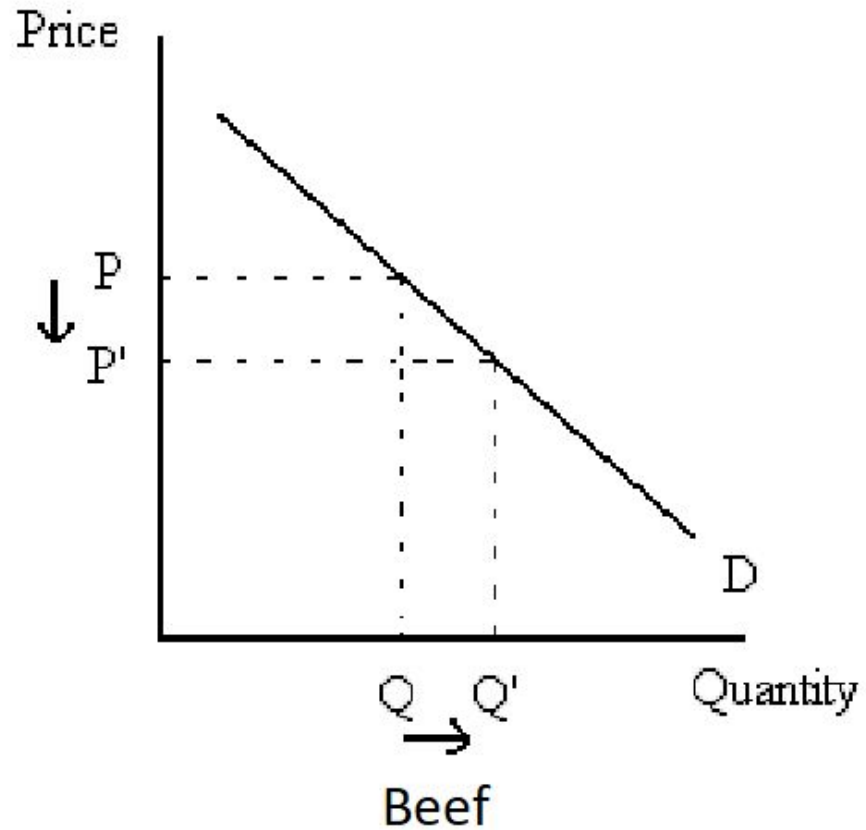
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If the price of beef goes down, we buy a greater quantity of beef. This will then cause the demand for its substitute (chicken) to decrease.

# DETERMINANTS OF DEMAND

## 4. Price of a substitute good:

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# DETERMINANTS OF DEMAND

## 5. Population:

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Demand curves come from adding together individual demand curve. That means if the population increase, the market demand curve shifts right.

This can also be from new markets.



# DETERMINANTS OF DEMAND

## 6. Expectation about future price:

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If you expect the price to rise in the future, you buy it now. (increase demand).

The price has not changed, we just expect it to change.

# DETERMINANTS OF DEMAND

1. CONSUMER INCOMES
2. TASTE AND PREFERENCE
3. PRICE OF A COMPLEMENT
4. PRICE OF A SUBSTITUTE
5. CHANGE IN POPULATION
6. EXPECTATIONS ABOUT PRICE

# SUPPLY

Supply-

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The number of units of a good or service that a seller

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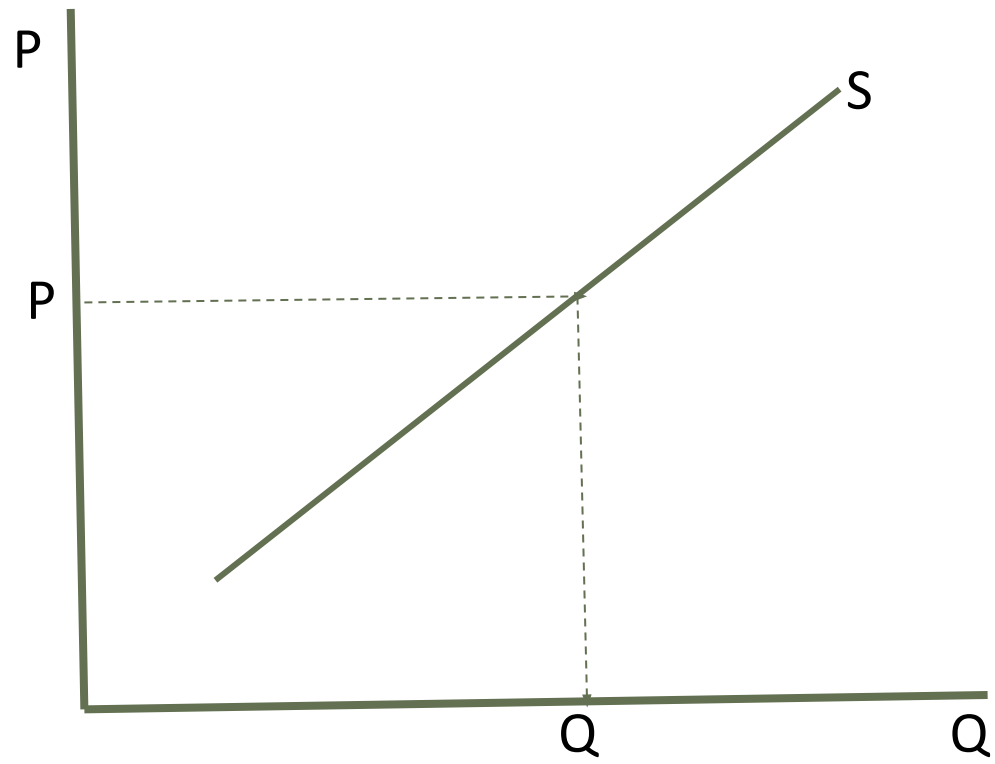
The number of units of a good or service that a seller is willing and able to sell **at various** prices.



# QUANTITY SUPPLIED

## Quantity Supplied-

The number of units of a good or service that a seller is willing and able to sell at a **specific** prices.



# SUPPLY VS QUANTITY SUPPLIED

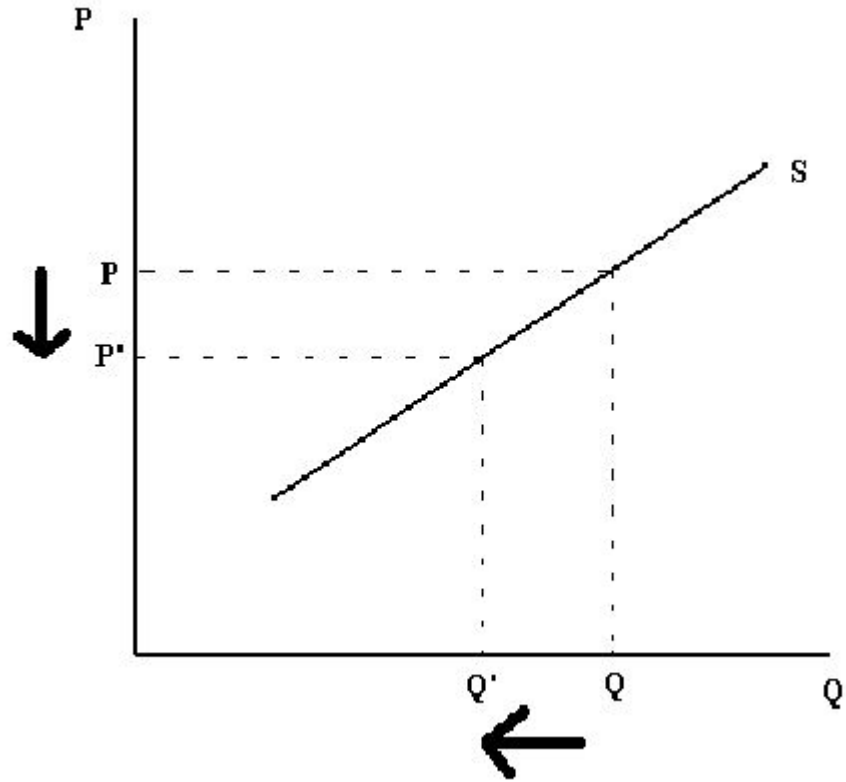
Supply is the entire curve.

Quantity supplied comes from a point on the curve.

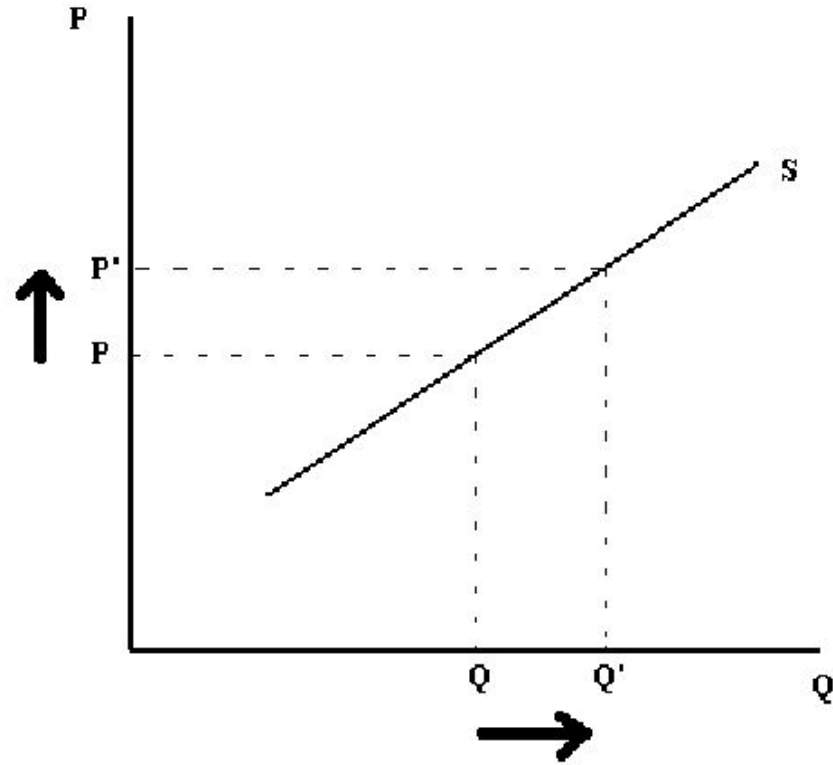
# SUPPLY SCHEDULE

Price (P)	Quantity (Q water bottles)
\$5	120
\$3	96
\$2	48
\$1	24
\$.50	12
\$.05	0

**The law of supply:** a change in the own-price causes a change in quantity supplied in the same direction and movement along a supply curve.



A decrease in price leads to an decrease in quantity supplied.



An increase in price leads to an increase in quantity supplied.

# MARKET SUPPLY CURVES

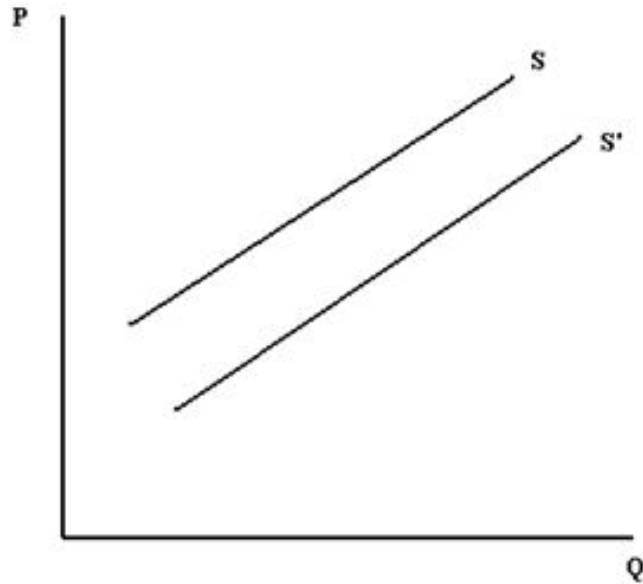
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A supply curve is the summation of individual supply curves.

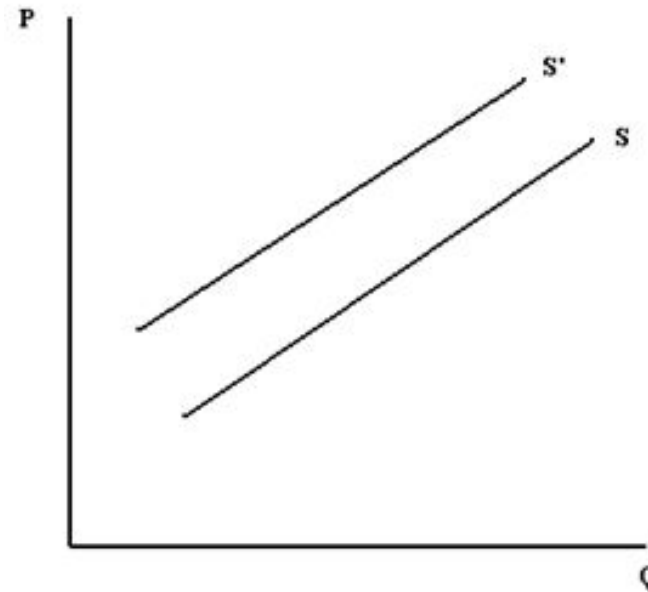
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An increase in supply is shown by a rightward shift of the supply curve.



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# DETERMINANTS OF SUPPLY

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Anything that makes it easier to produce, or cheaper to produce shifts the supply curve to the right.

Anything that makes it harder to produce or more expensive to produce shifts the supply curve to the left.

# DETERMINANTS OF SUPPLY

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1. Resource Prices: A rise in the price of inputs shifts the supply curve to the left.

A fall in input prices causes supply to shift right.  
Willing to sell more at all prices.

# DETERMINANTS OF SUPPLY

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2. Technology: An increase in technology shifts the supply curve to the right.

A decrease in technology shifts the supply curve to the left.

# DETERMINANTS OF SUPPLY

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3. Taxes: An increase in taxes shifts the supply curve to the left.

A decrease in taxes shifts the supply curve to the right.

# DETERMINANTS OF SUPPLY

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4. Subsidies: When the government pays a company to produce. (Covid Vaccines)

An increase in subsidies shifts the supply curve to the right.

A decrease in subsidies shifts the supply curve to the left.

# DETERMINANTS OF SUPPLY

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5. Number of Sellers: An increase in the number of sellers shifts the supply curve to the right.

A decrease in the number of sellers shifts the supply curve to the left.

# DETERMINANTS OF SUPPLY

1. Resource Prices
2. Technology
3. Taxes
4. Subsidies
5. Number of Sellers

# Practice Questions

A change in which of the following will cause a change in the supply of personal computers (PC's) in the short run?

- (A) Technology
- (B) Demand for PC's
- (C) Price of disks, which are a complement to PC's
- (D) Price of PC's
- (E) Consumers' incomes



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# Practice Questions

Which of the following situations best illustrates the law of demand?

- (A) As real incomes of United States citizens have decreased over the past year, the demand for housing has also decreased.
- (B) Recent decreases in the price of imported wine have led to an increase in the consumption of domestic wine.
- (C) In the past several months, as the price of compact disc players has decreased, the quantity of compact disc players sold has increased.
- (D) The increase in the price of quality health foods has increased the revenues of firms producing these goods.
- (E) As the demand for computers has increased, the number of workers in the computer industry has increased.

# Practice Questions

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- Ⓔ As the demand for computers has increased, the number of workers in the computer industry has increased.

# Practice Questions

In the short run, a decrease in production costs of a product will shift

- (A) both the demand curve and the supply curve to the right
- (B) the demand curve to the left and the supply curve to the right
- (C) only the supply curve to the right
- (D) only the supply curve to the left
- (E) only the demand curve to the left

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# Practice Questions

If the increase in the price of one good decreases the demand for another, then the two goods are

- (A) inferior goods
- (B) luxury goods
- (C) normal goods
- (D) substitute goods
- (E) complementary goods

# Practice Questions

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# Practice Questions


The supply curve for automobiles will shift to the left in response to

- (A) an increase in the efficiency of robot technology
- (B) an increase in wages in the automobile industry
- (C) a decrease in the number of consumers purchasing automobiles
- (D) a decrease in the interest rates for automobile loans
- (E) a decrease in consumers' income



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- Ⓓ a decrease in the interest rates for automobile loans
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# Practice Questions

Which of the following will decrease the demand for beef?

- (A) An increase in the price of pork, if pork and beef are substitute goods
- (B) An increase in the price of potatoes, if potatoes and beef are complementary goods
- (C) A decrease in the cost of transporting beef to consumers
- (D) An increase in the income levels of most consumers, if beef is a normal good
- (E) Research showing beef is better for your health than chicken

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- (C) A decrease in the cost of transporting beef to consumers
- (D) An increase in the income levels of most consumers, if beef is a normal good
- (E) Research showing beef is better for your health than chicken


# Practice Questions

Which of the following events will cause the demand curve for hamburgers to shift to the right?

- (A) An increase in the price of pizza, a substitute for hamburgers
- (B) An increase in the price of a french fries, a complement to hamburgers
- (C) An increase in the price of hamburgers
- (D) A decrease in the price of hamburgers
- (E) A decrease in the cost of producing hamburgers

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- Ⓔ A decrease in the cost of producing hamburgers

# Practice Questions

If the demand for potatoes increases whenever a person's income increases, then potatoes are an example of

- (A) an inferior good
- (B) a free good
- (C) a Giffen good
- (D) a normal good
- (E) a public good

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(B) a free good

(C) a Giffen good

(D) a normal good



(E) a public good



# Practice Questions

If the government imposes a tax on the production of cars, which of the following will occur in the market for cars?


- (A) There will be a movement to the right along the supply curve.
- (B) There will be a movement to the right along the demand curve.
- (C) The supply curve will shift to the right.
- (D) The supply curve will shift to the left.
- (E) The demand curve will shift to the right.





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- (E) The demand curve will shift to the right.


# Practice Questions

Assume that apple juice and grape juice are substitutes. Which of the following will cause an increase in the quantity of apple juice supplied?

- (A) A decrease in subsidies to apple juice producers
- (B) A decrease in the price of grape juice
- (C) An increase in the price of apple juice
- (D) An increase in the price of insecticides used on apple trees
- (E) The imposition of a price ceiling in the market for apple juice

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WHAT ARE YOUR QUESTIONS?