

Demand, Supply and Market Equilibrium

<https://www.youtube.com/watch?v=mSwLU4zuP2o>

DEMAND

- Demand we mean the various quantities of a given commodity or service which consumers would buy in one market in a given period of time at various prices, or at various incomes, or at various prices of related goods.
- Demand implies more than just a desire to buy a product. Demand thus means desire backed by willingness and ability to pay.

Demand curve

<https://www.youtube.com/watch?v=mSwLU4zuP2o>

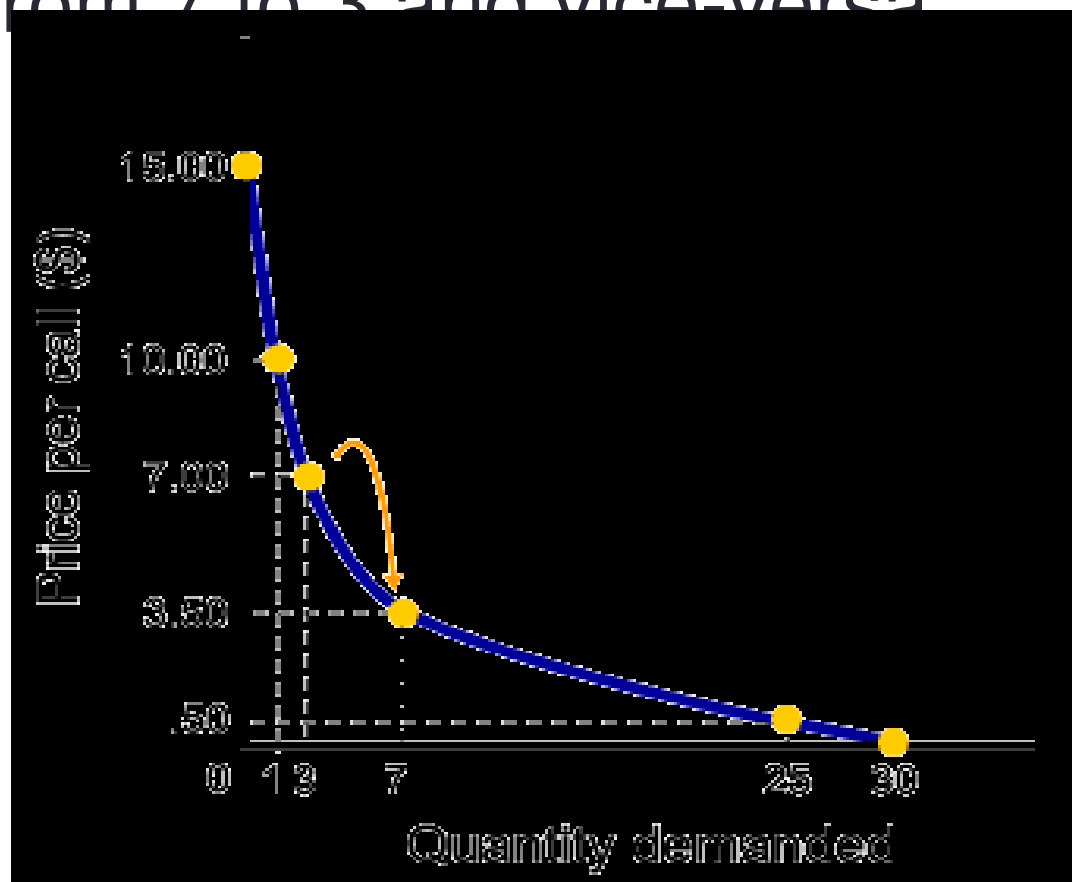
- A curve illustrating the inverse relationship between the price of a product and the quantity of it demanded, other things equal is called demand curve.
- For the demand curve other things remain equal, i.e.
 1. Consumer's income
 2. Price of other goods
- Slope of demand curve is downward.
- Describes buyer's preferences for a goods/services.

Law of demand

A microeconomic law that states, all other factors being equal, as the price of a good or service increased, consumers demand for the good or service will decrease, and vice versa.

- Illustration:

When the price per call increases from 3.5 to 7, quantity demanded decreases from 7 to 3 and vice versa.



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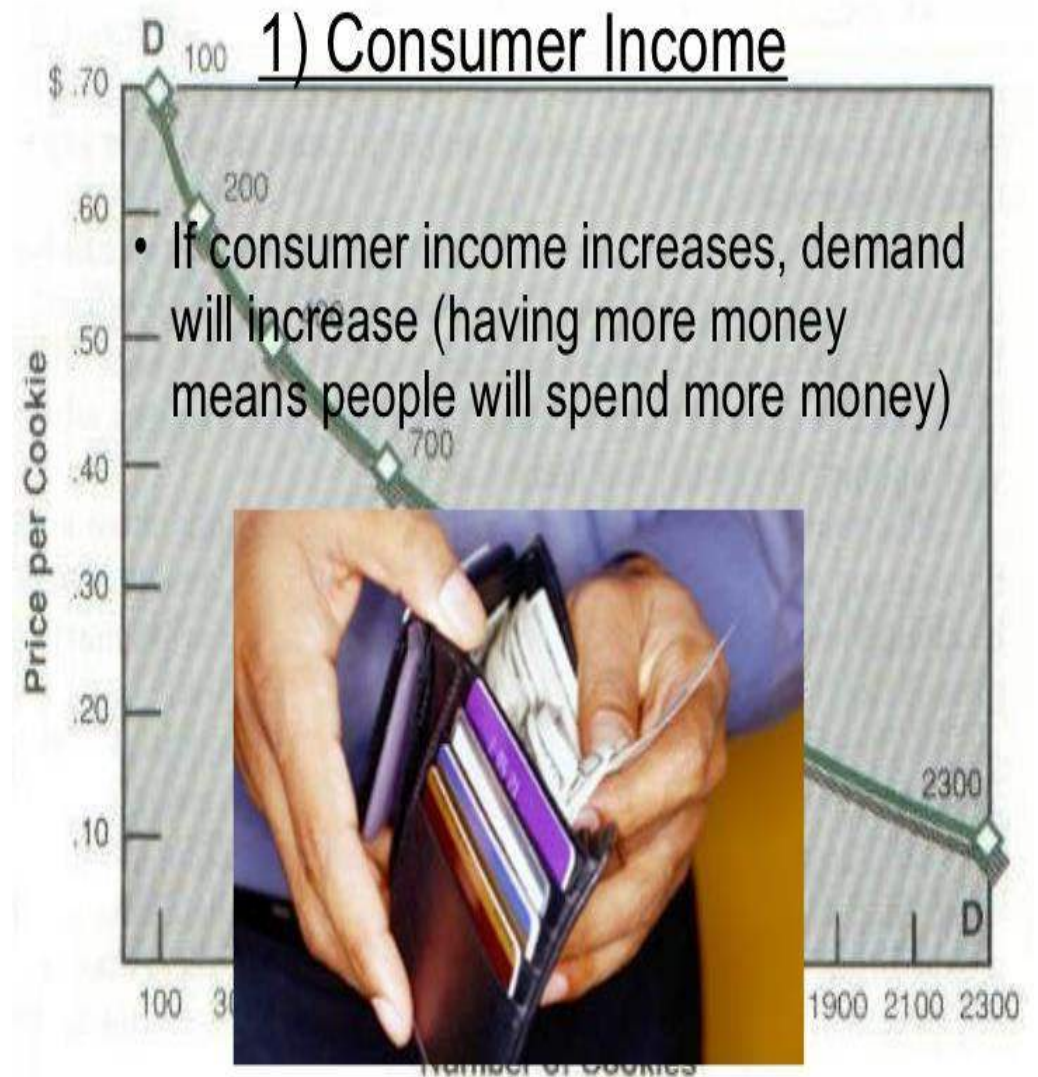
Factors affecting demand

- Consumer income
- Consumer tastes
- Product/service substitutes
- Compliments of the product/services
- Change in expectations

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Consumer income and demand

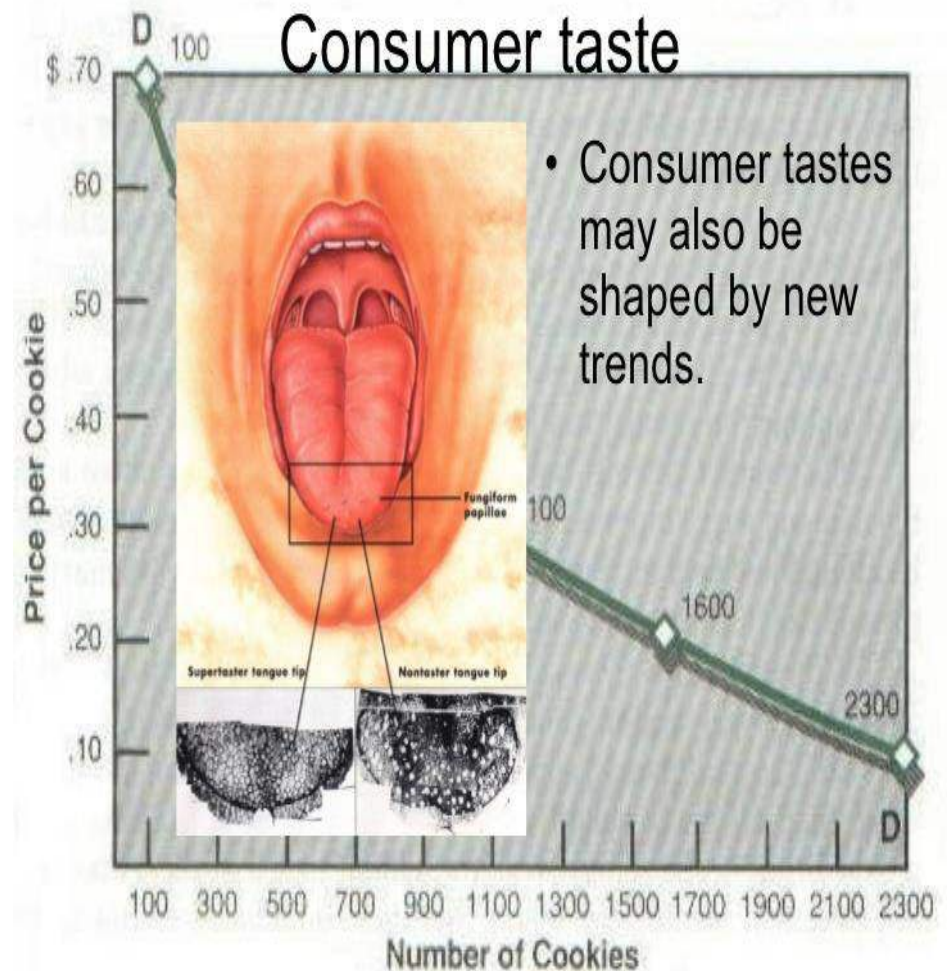
- Consumer income can be increase in two ways:
 1. Increase in the salary
 2. Prices of goods & services decreases



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Change in the taste and preferences

- By the way of advertisement taste and preferences of the consumers are shaped.
- Favorable change increases the demand for the product.



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Substitutes of goods/ services and demand

- If the price of one product goes up, other product can be used instead of that.
- Increase in the price leads to increase in the demand of substitute goods.
- E.g. Tea and Coffee, Maaza and slice



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Compliment goods and demand

- Increase in demand of one product automatically leads the demand of other product.
- If demand for playstation is higher then demand of its CD's also increased.
- E.g. two-wheeler and petrol.



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Elasticity

- Price elasticity of demand
=
$$\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

i.e. quantity demanded due to price change.

The higher the price elasticity, the more sensitive consumers are to price changes and vice-versa.

Flatter demand curve have higher elasticity than steeper one.

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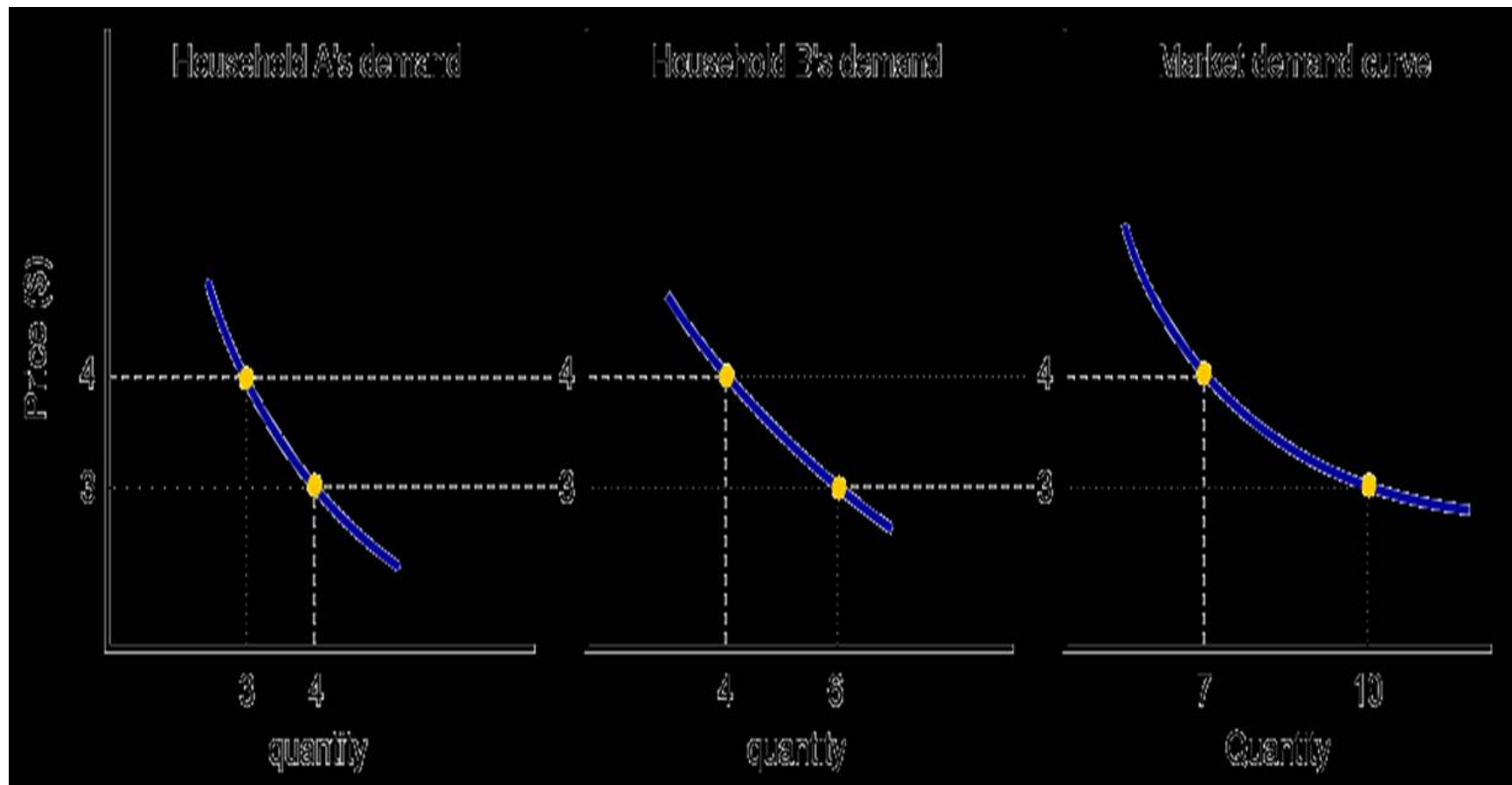
INDIVIDUAL DEMAND TO MARKET DEMAND

- Demand for a good or service can be defined for an ***individual household*** is household demand.
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- By adding the quantities demanded by all consumers at each of the various possible prices, we can get from individual demand to **market demand**.

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Individual demand to market demand

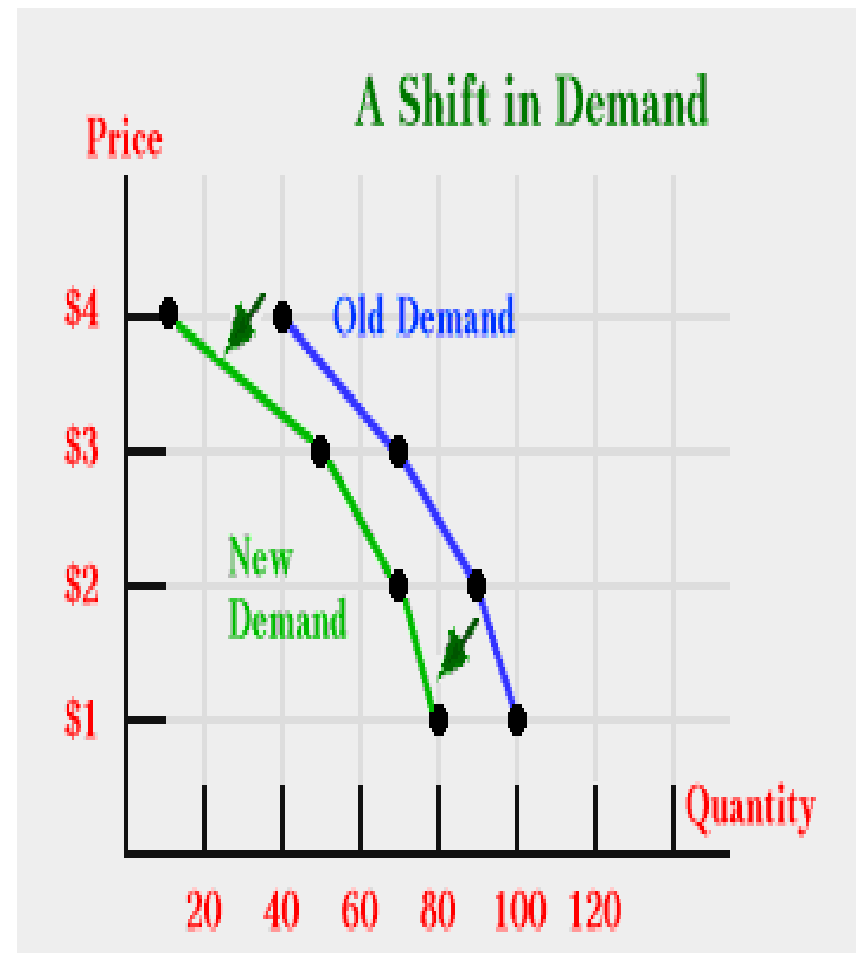
there is two household A and B, makes market demand as follows:



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Change in demand

- The shift of a demand curve of a product or a service, caused by shifting trends or new competition, which can either lower or raise price.

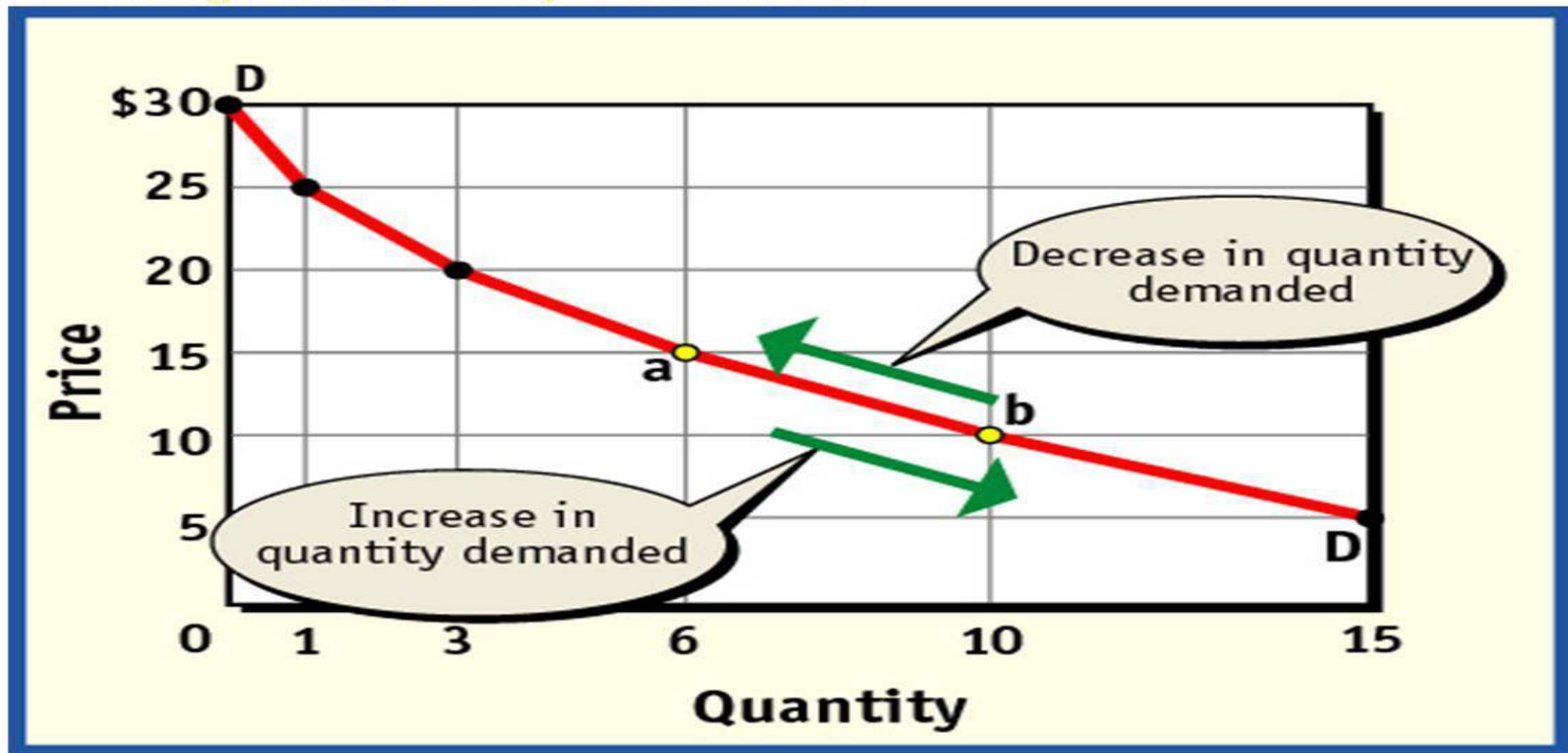


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Change in quantity demanded

Change in price of a good or service leads to change in *quantity demanded*

A Change in Quantity Demanded



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SUPPLY

- The total amount of a product (good or service) available for purchase at any specified price at specified period of time is called supply.
- **Supply curve:**

Graphic representation of the relationship between product price and quantity of product that a seller is willing and able to **supply**.

Here, the price of the factors of production and technology remains constant.

Product price is measured on the vertical axis of the graph and quantity of product supplied on the horizontal axis.

It describes the seller's desire to make the good available.

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Law of supply

The Higher the price, higher the quantity supplied

Supply curve

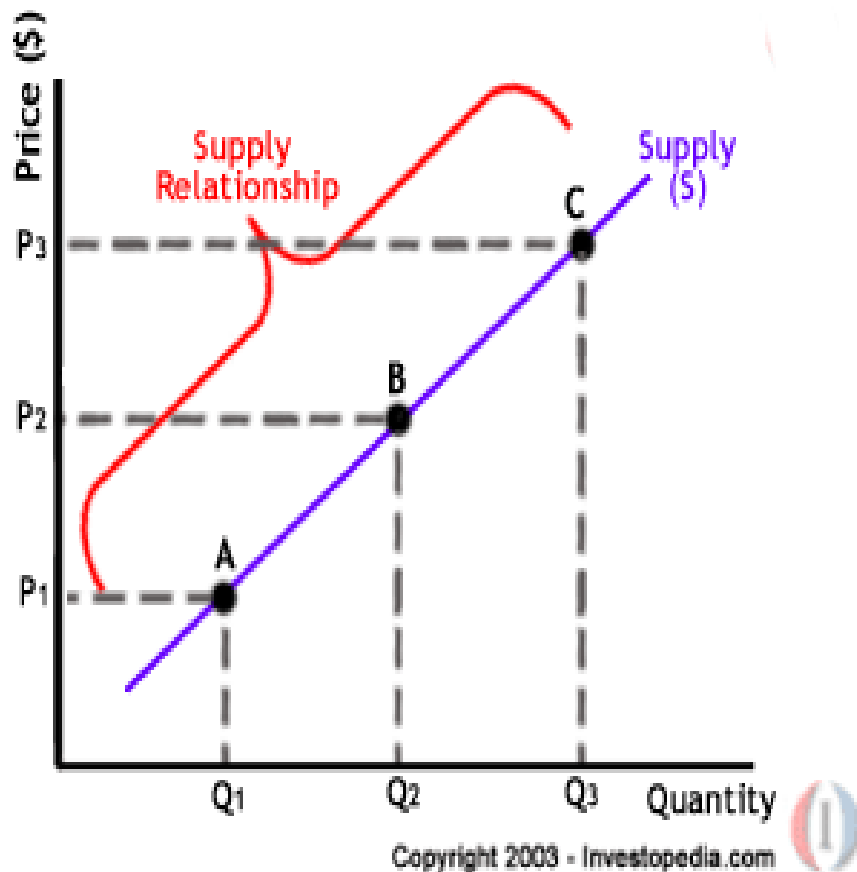
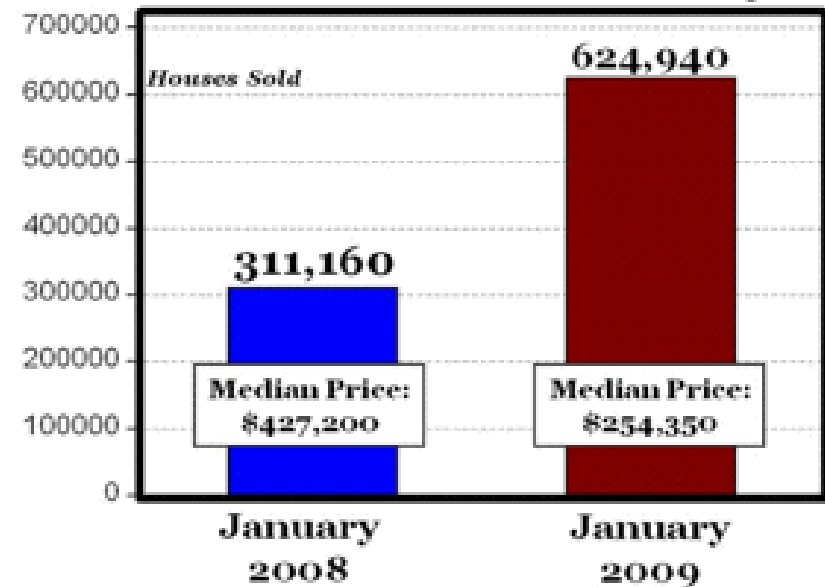


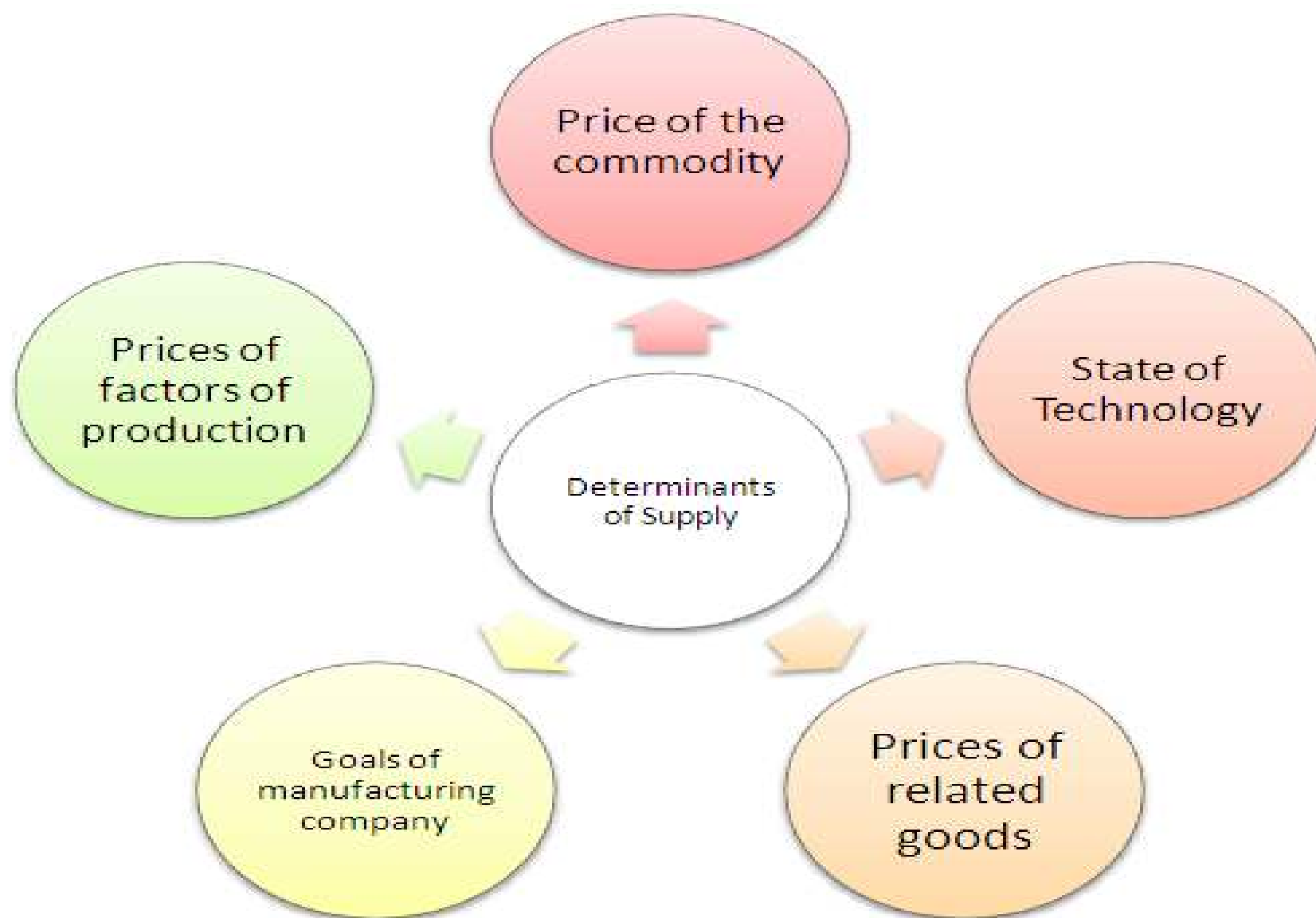
Illustration: increase in the price leads to increase in the home sales of California stated below.

**California Home Sales:
Jan. 2008 vs. Jan. 2009**



Source: California Association of Realtors

Determinants of supply



Elasticity of supply

- = $\frac{\% \text{ change in quantity supply}}{\% \text{ change in price}}$

It describes the responsiveness of sellers to a change in the price of the product.

The higher the elasticity of supply, the faster the supply will increase when demand and price increase.

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Change in supply v/s change in quantity supplied

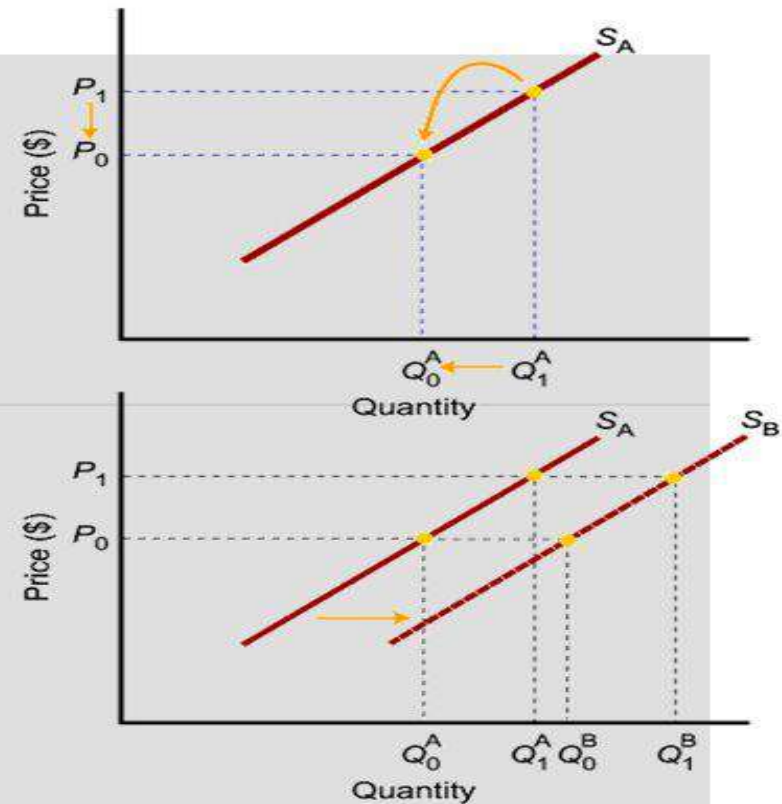
A Change in Supply Versus a Change in Quantity Supplied

Change in price of a good or Service leads to

Change in *quantity supplied* (**Movement along the curve**).

Change in costs, input prices, technology, regulations, expectations, or other firms leads to

Change in supply (**Shift of curve**).



Individual supply to market supply

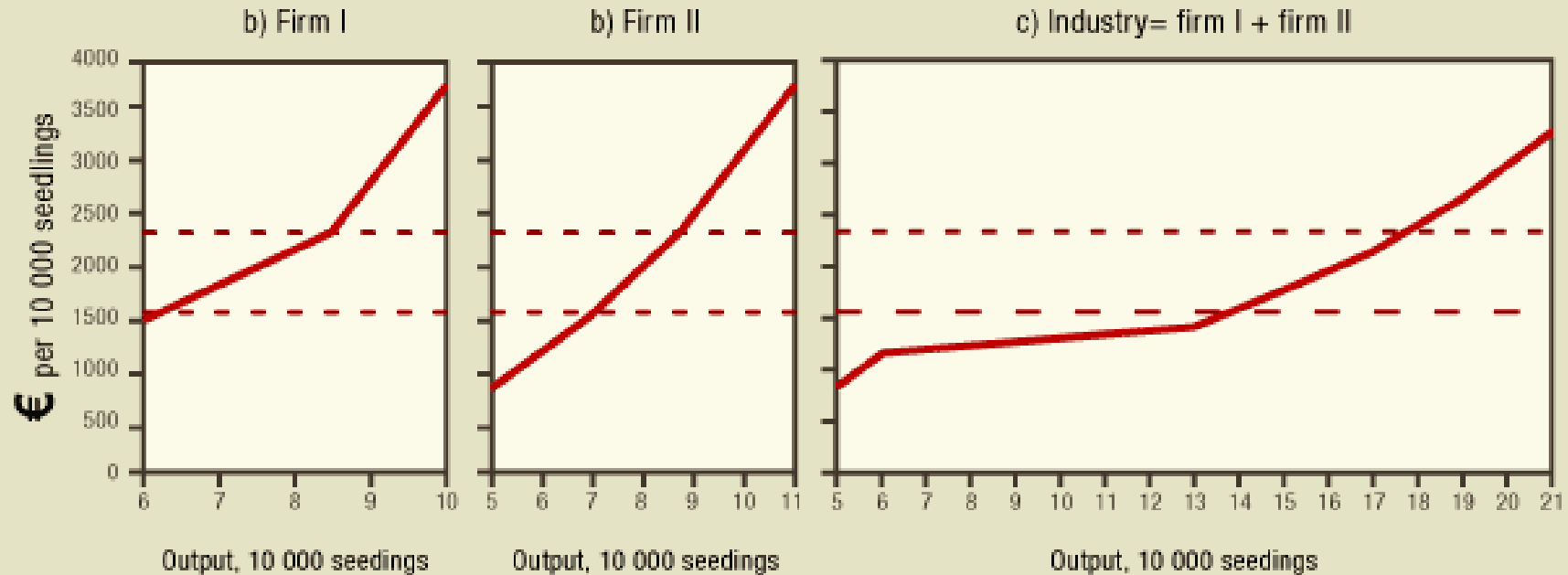
- Goods/services supplied by an individual seller is known as individual supply.
- Market supply is found by combining the individual supplies of every firm or producer willing and able to sell a particular good.

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Individual supply to market supply

Figure E2

Horizontal sum of two nurseries' supply curves gives the two-firm industry supply curve.



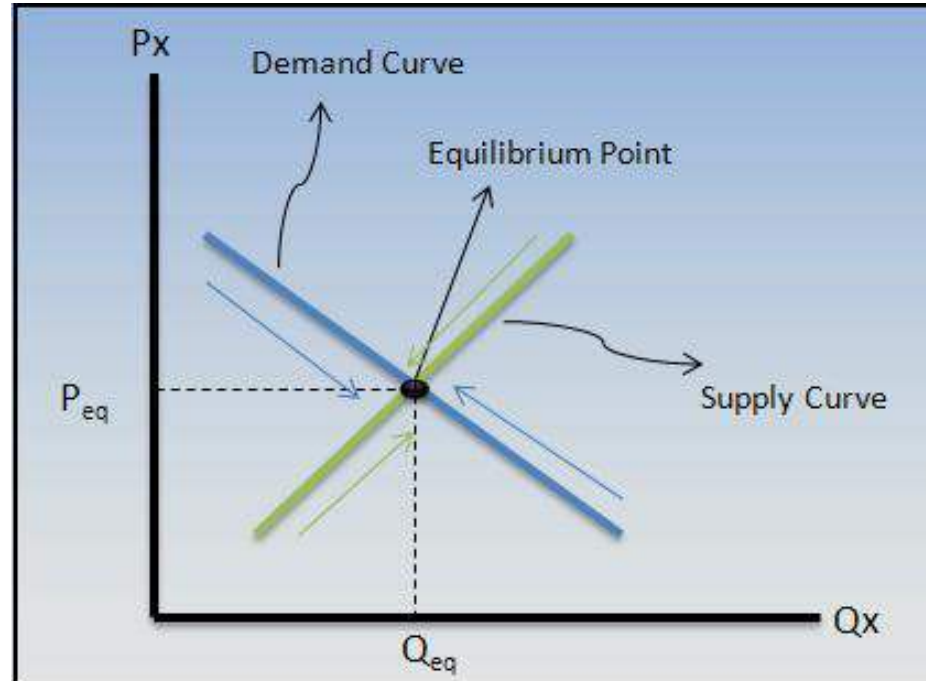
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Market Equilibrium

- A price-quantity combination that results from the interaction of the supply curve and the demand curve such that at the indicated price, the quantity demanded equals the quantity supplied.
- The balancing effect of supply and demand results in a state of equilibrium.

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Market Equilibrium curve



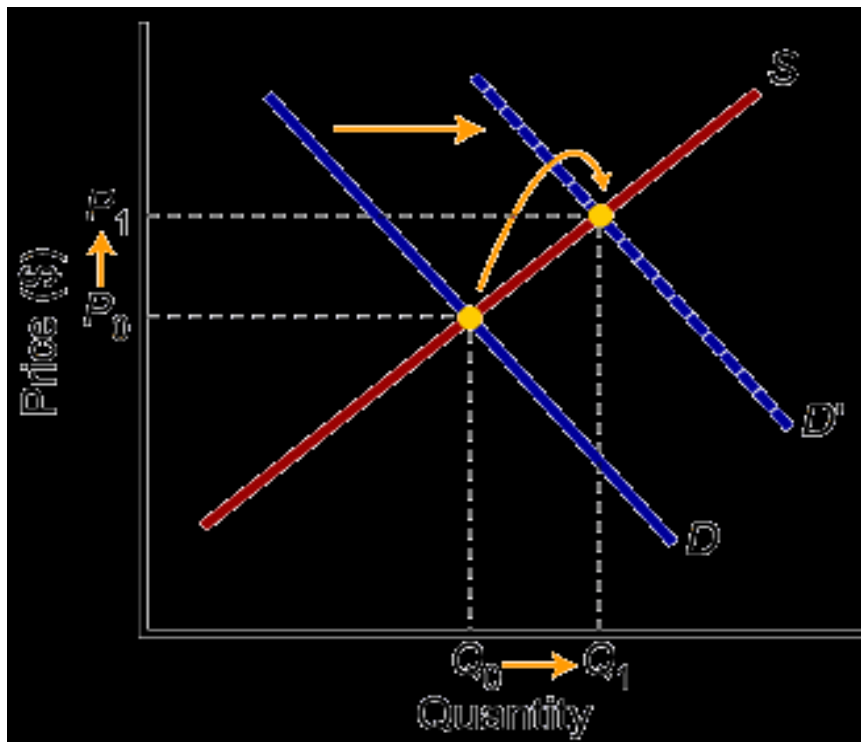
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Effects of changes in demand and supply on equilibrium

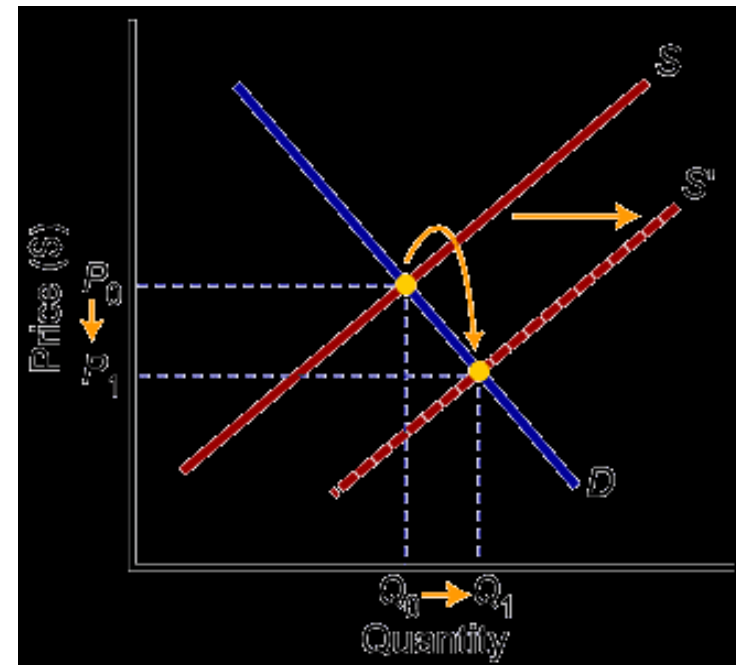
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Increase in demand and supply

Higher demand leads to higher equilibrium price and higher equilibrium quantity



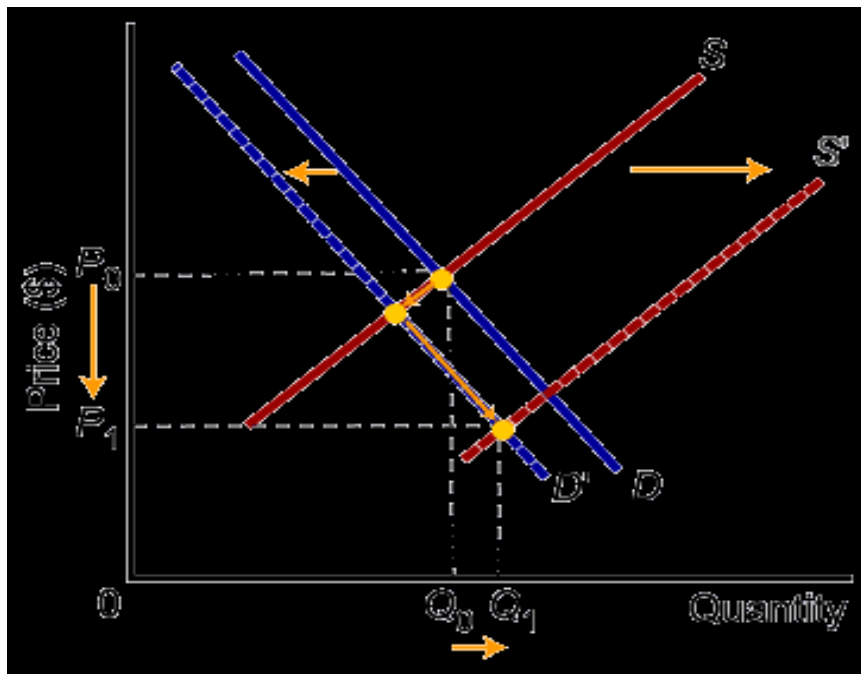
Higher supply leads to lower equilibrium price and higher equilibrium quantity.



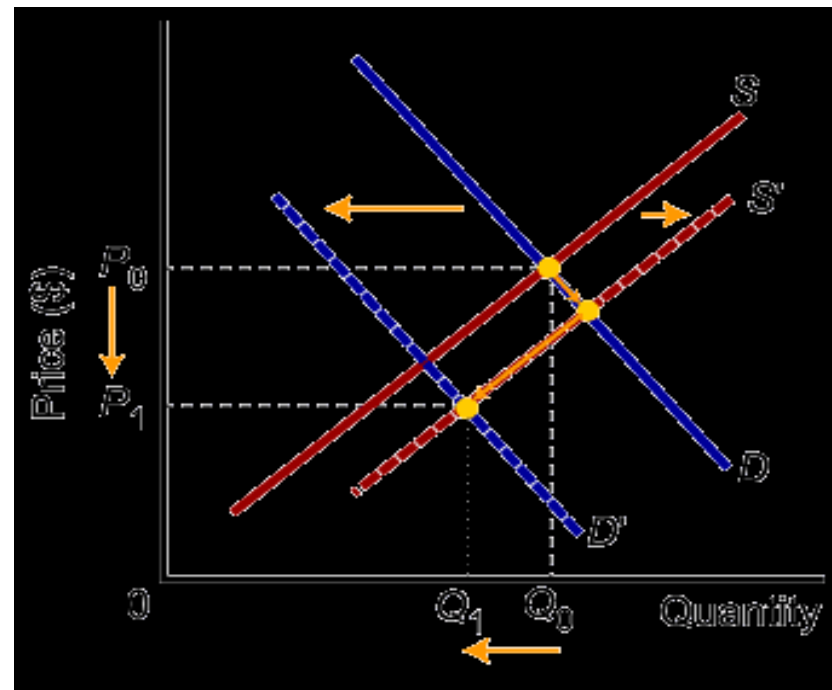
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Decrease in demand and supply

Lower demand leads to lower price and lower quantity exchanged.



Lower supply leads to higher price and lower quantity exchanged.

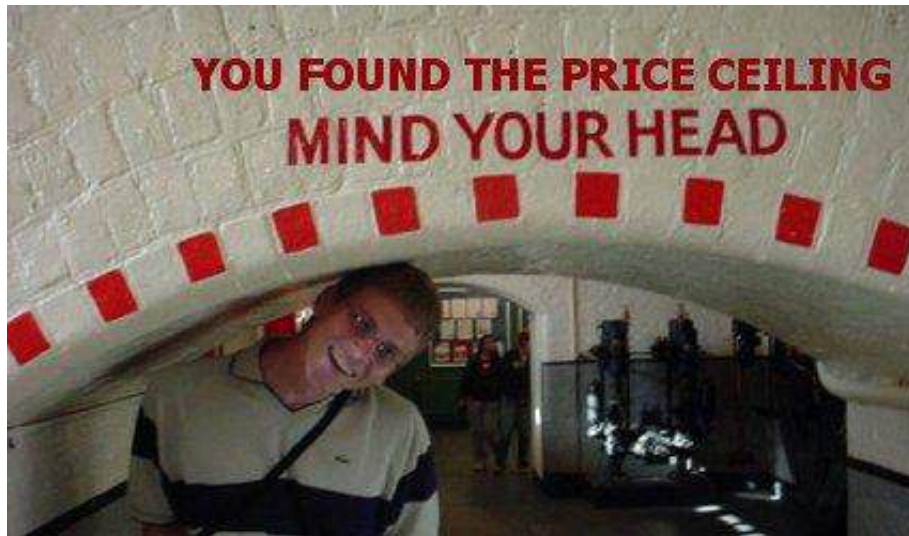


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Price fixing

1. Price ceiling

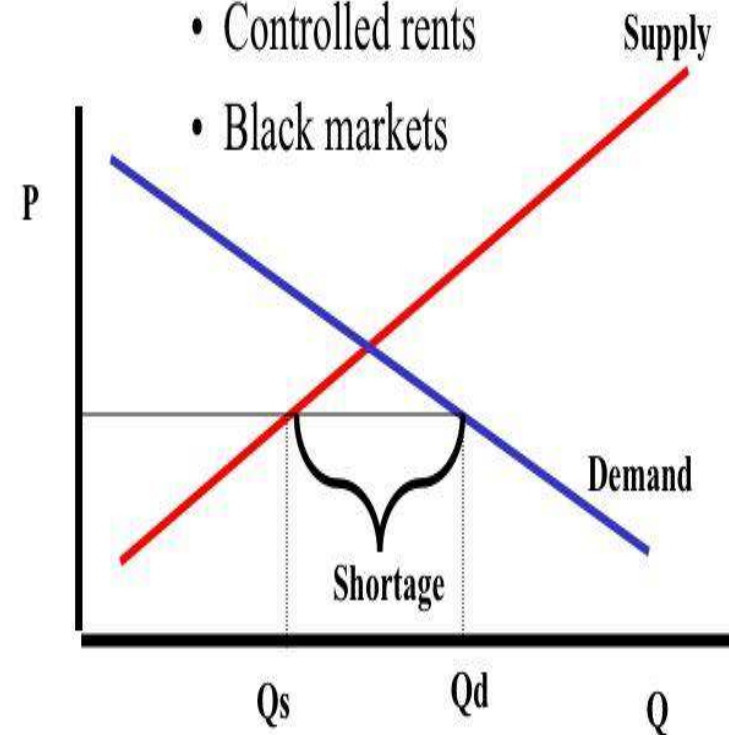
Maximum price is taken in this kind of price fixing



Price Ceilings

A maximum price

- Shortage if below equilibrium
- Controlled rents
- Black markets

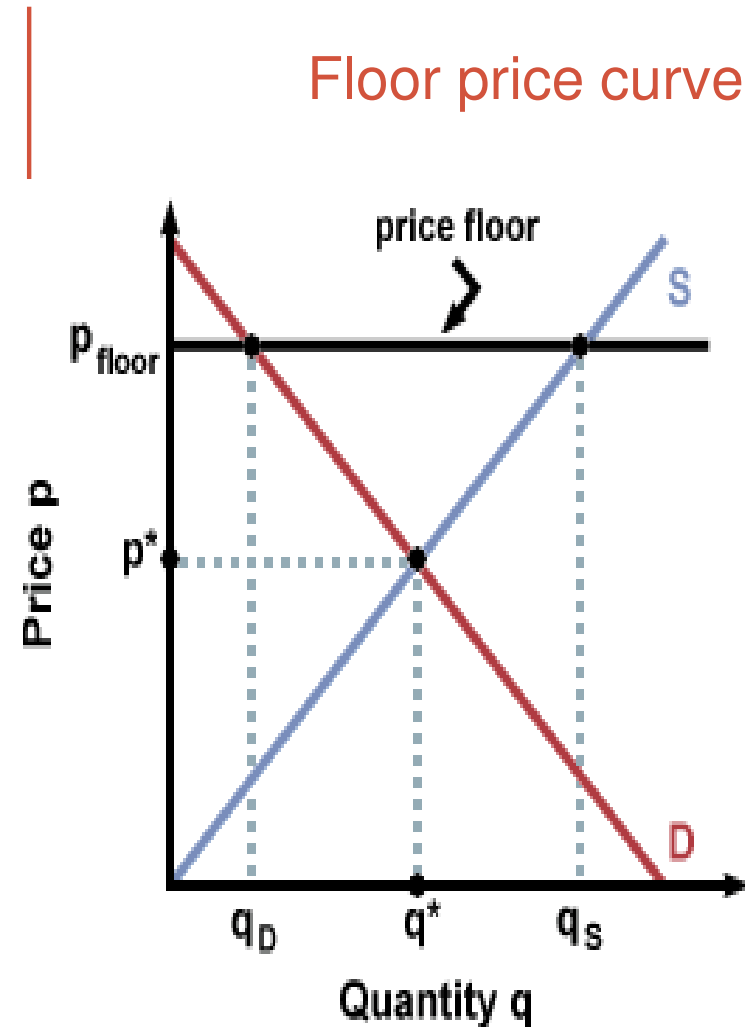


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2. Price floor

Definition

- In this kind of price fixing, the minimum price is mandated.



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Examrace