

Review: Demand and Supply



- This section is a review of the concepts of demand and supply, which you should have learned in another class, such as Principles of Microeconomics, or Family Economic Issues.
- These concepts will be used quite a bit in this class. So please make sure you understand them. If you need help, please contact me.

Supply and Demand Determine Price



- An equilibrium price occurs when:
 - Quantity demanded = quantity supplied
- At equilibrium: no incentive for price to change

Demand for a Good or Service Depends on Several Variables



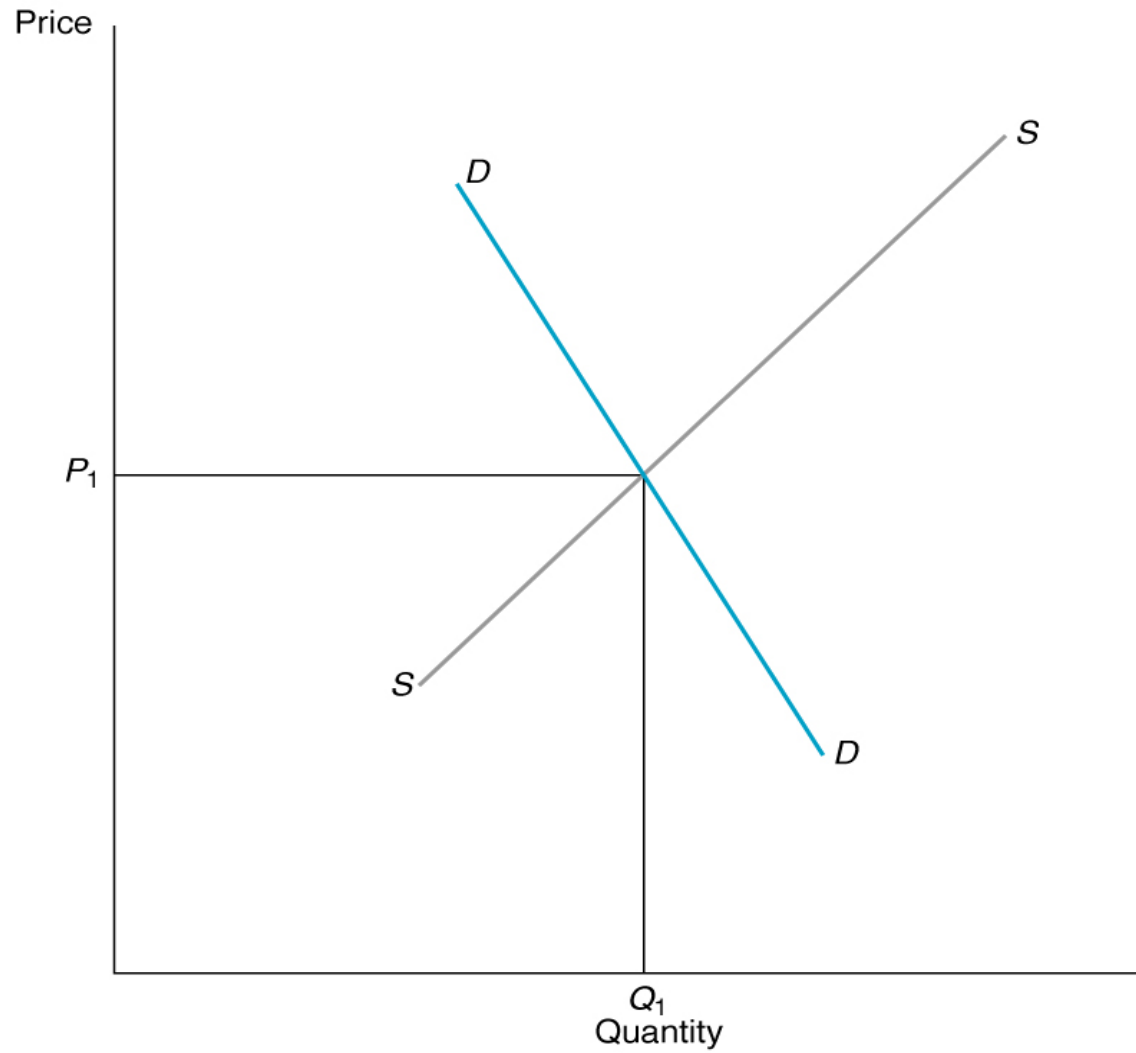
- The price of the good
- Consumer tastes
- Prices of substitute and complementary goods
- Consumer incomes

Supply of a Good or Service Depends on Several Variables



- The price of the good
- Production costs
- Technological level

The Interaction Between Supply and Demand

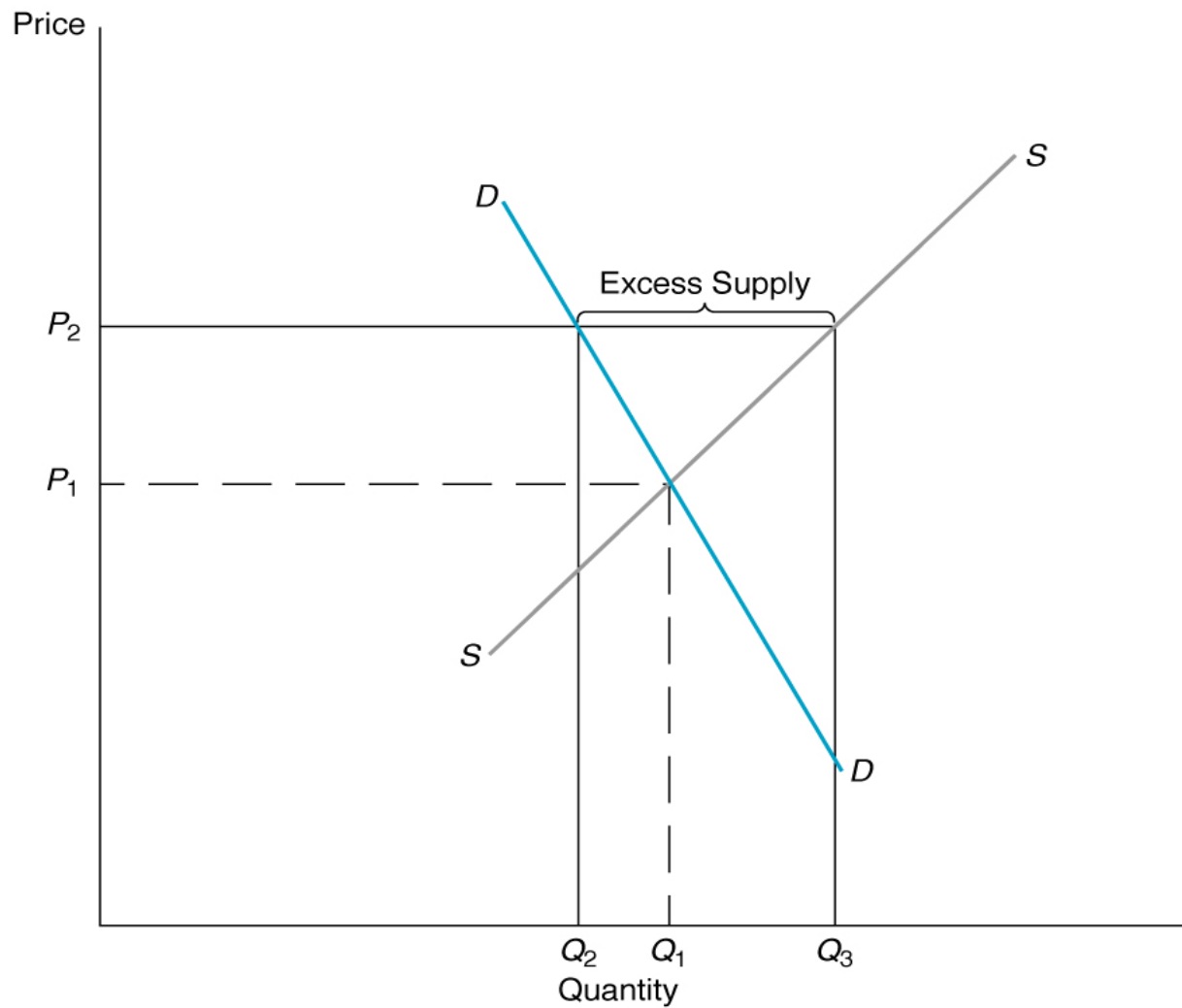


The Interaction Between Supply and Demand

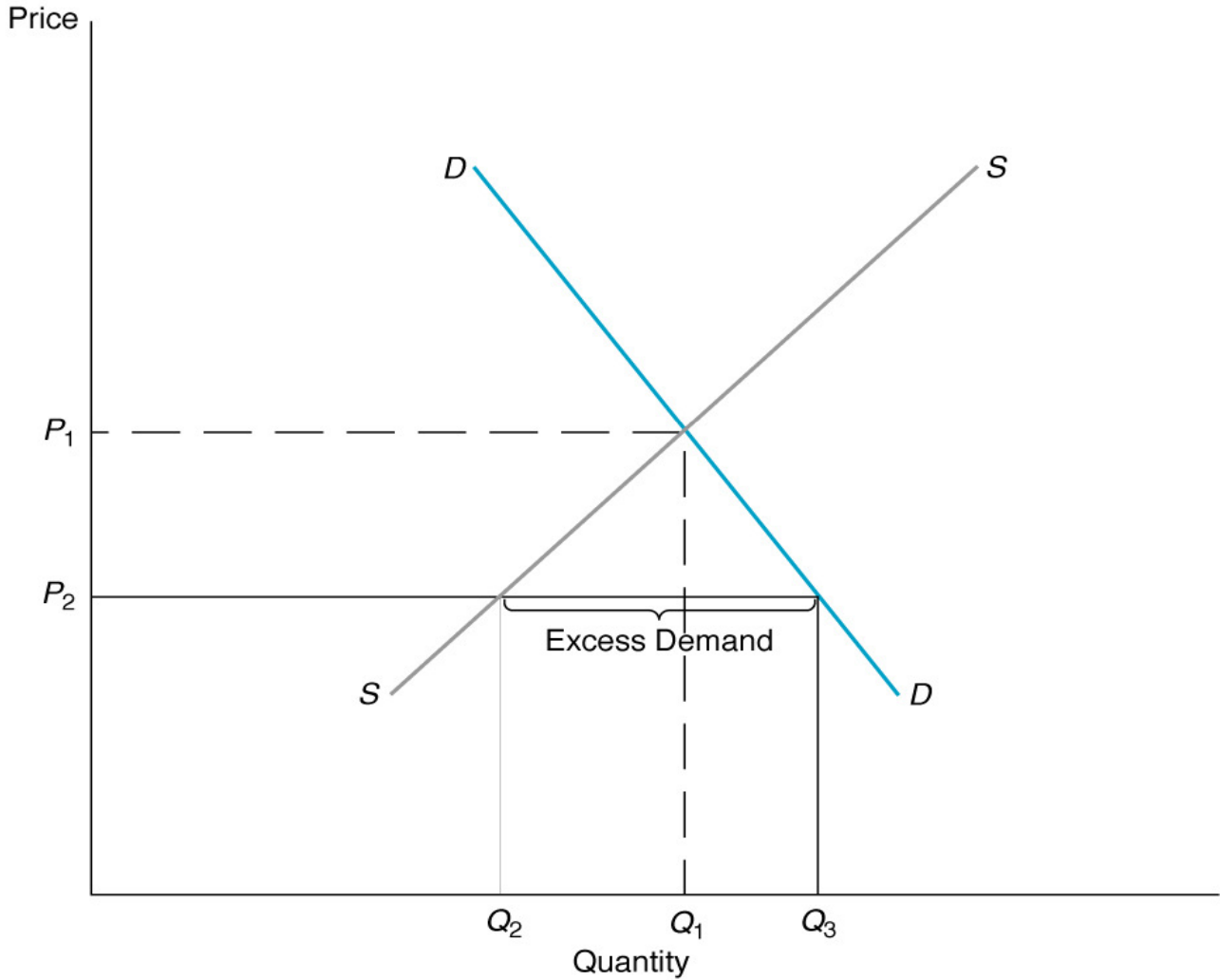


- The equilibrium price equates the quantity demanded and the quantity supplied.

Effect of a Higher Price Excess Supply



Effect of Lower Price Excess Demand

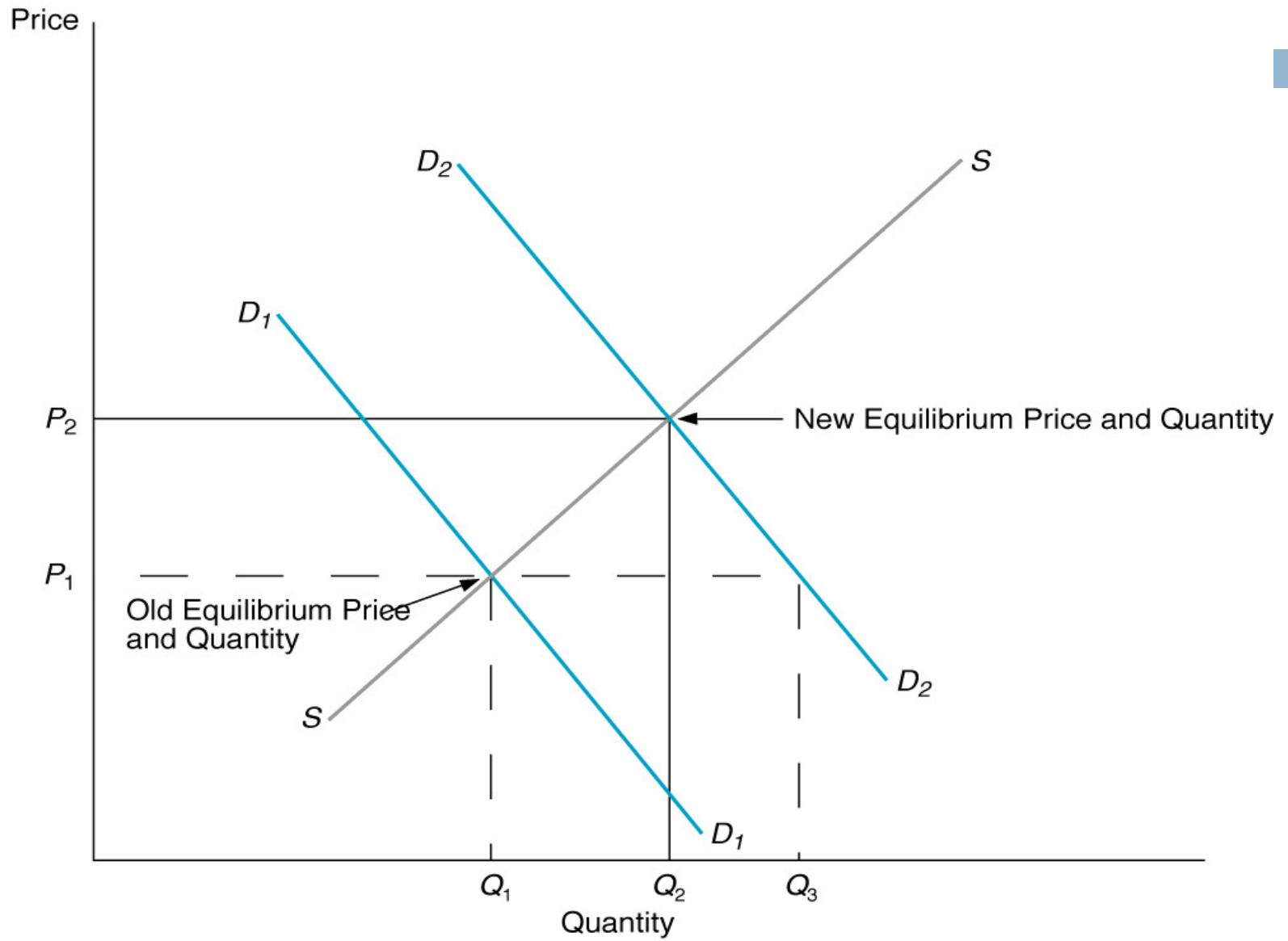


Demand & Supply Graphs



- Relate price and quantity
- All other factors held constant
- If any variable changes, the demand curve or the supply curve shifts
- The shift causes the quantity and price to change

An Increase in Demand

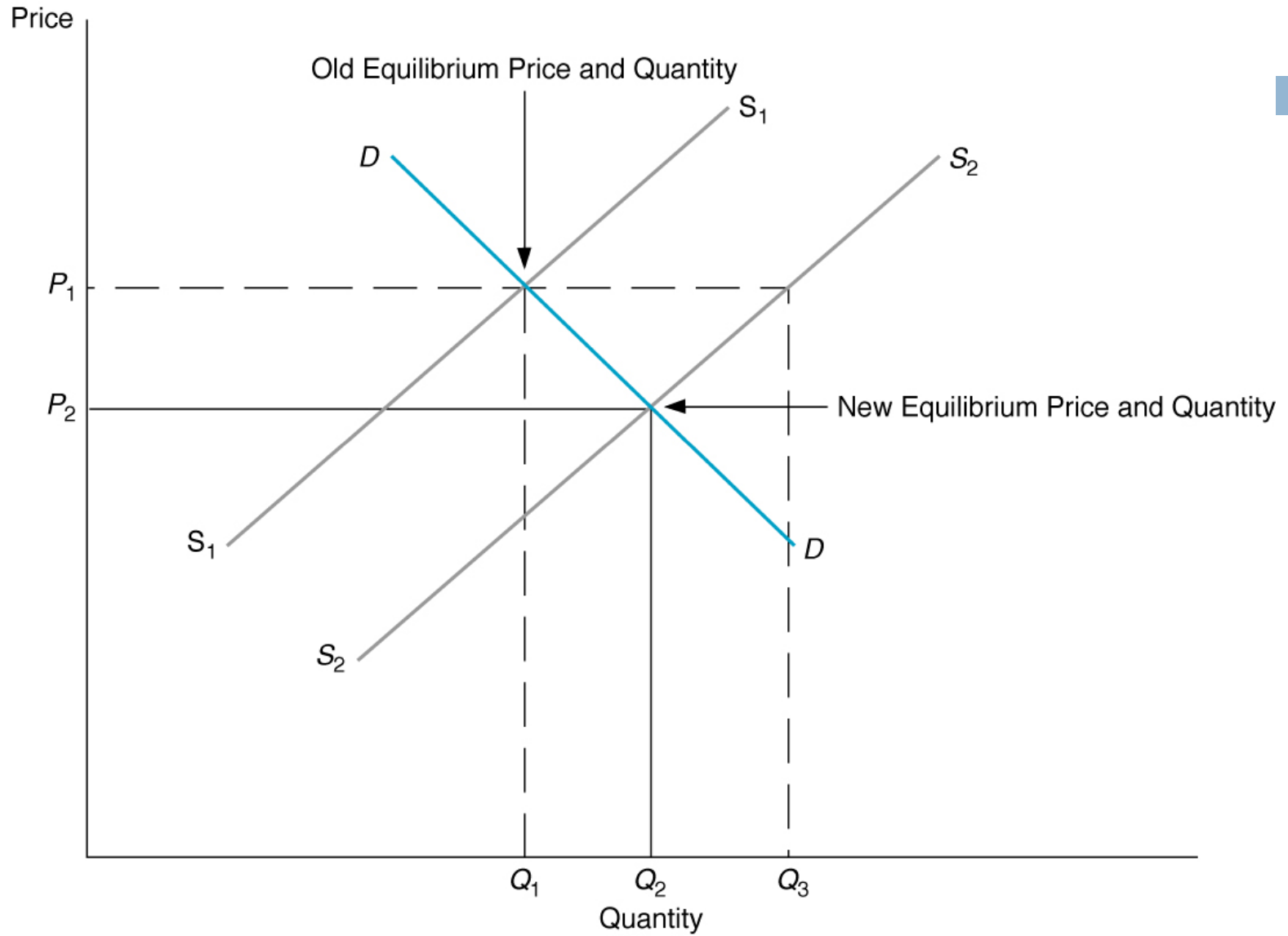


An Increase in Demand



- Causes price to rise and quantity supplied to increase
- A decrease in demand has the opposite effect - price and quantity supplied fall

An Increase in Supply



An Increase in Supply



- Causes price to fall and quantity demanded to increase
- A decrease in supply causes prices to rise and quantity demanded to fall.