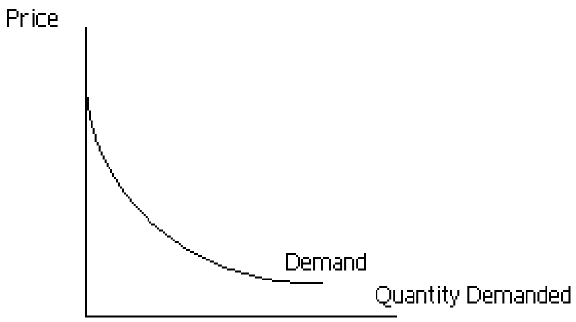
Day Nine

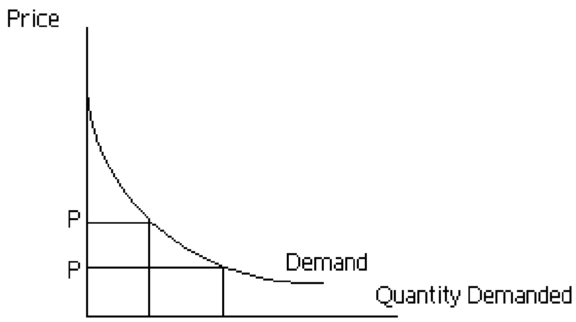
- Circular flow of economic activity
- How do markets work?
- How does a simple market work:
    - Buyers – Must be able and willing to buy a product at some price
        - Demand – Collective desire of all buyers to purchase a product at any price
- No desire or no ability to pay keeps out of market



- Price and Quantity demanded have an inverse relationship
    - Law of demand
- Ceteris Paribus
    - With everything the same
- Demand is the total willingness of buyers at every price
- If price is held constant, is there anything that would make one want more?
    - Change in TASTE

Day Ten

- Markets
- Forces of supply and demand
- Just because you are a buyer does not mean that you purchase
    - Function of the price
    - Quantity demanded, number wanted at a particular price



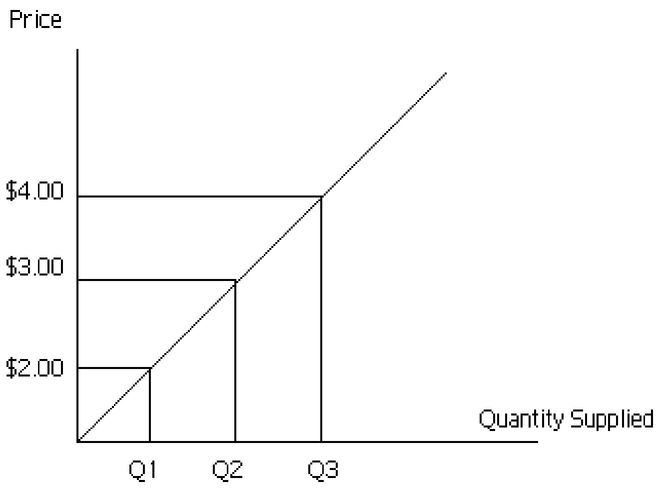
- Inverse relationships between price and quantity demanded
    - Law of demand (Ceteris Paribus)
- If price is held constant what would change to make buyers want to buy more or less
    - Determinants of demand
        - Taste
        - Change in the price of related goods
            - Substitutes – Can be substituted for product
            - Compliment – One product is needed to use the other
                - Cars and gas
                - Hotdogs and bugs
                - Batteries and battery run products
        - Income of Buyer
            - If a product is normal, when income increases, people buy more
        - Number of buyers
            - Demographics
            - Old people? Children?
        - Expectations
            - Expect something to be cheaper in future: buy less now
- Position of the demand curve is a function of those 5 things
- All five things are constant when looking at relation between price and
- When the 5 things change, it shifts the demand curve
    - Shifters/Determinants of demand

<u>Day Eleven</u>

- Nature of Demand
- Supply
    - If you are willing and capable of selling something
    - When price goes up, quantity supply goes up
    - Initiative appeal of the Law of Supply
    - EX: Four farmers are capable and willing to produce wheat

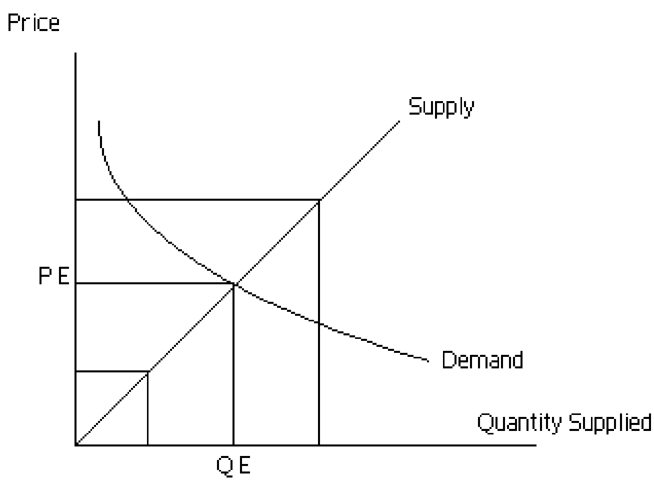
Farmer A	Farmer B	Farmer C	Farmer D	

$1.50	$2.50	$3.50	$4.50	Price to produce wheat

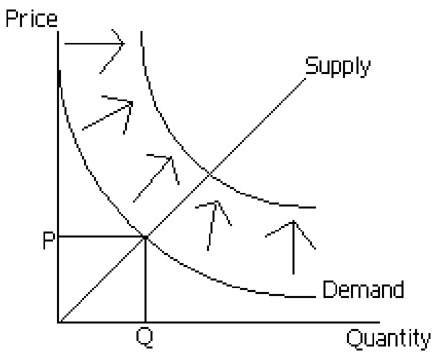


- At $2.00, only farmer A would produce
- At $3.00, farmer A would want to produce more and farmer B can produce
- Higher price, greater quantity supplied
    - Law of supply
- Could supply curve be shifted?
    - A change in the price of resources
    - Improved technology that reduces price of production
    - Taxes and subsidies
    - Expectations
    - The number of sellers
    - Change in price of related goods

<u>Day Twelve</u>



- If market is free, and supply is homogeneous, the market will move toward the point of equilibrium (P E & Q E)
- At equilibrium, Quantity Demanded = Quantity supplied
- If price falls below equilibrium, quantity supplied goes down, and quantity demanded goes up
    - QD > Qs
    - Shortage
- If price goes up, Quantity supplied goes up, and demanded goes down
    - QD < QS
    - Surplus
- Sellers bid price down to equilibrium, buyers bid price up
    - At equilibrium, market rests/clears/bottoms out
- For market to function, what is necessary?
    - The invisible hand
    - Competition
- How do you get off equilibrium?



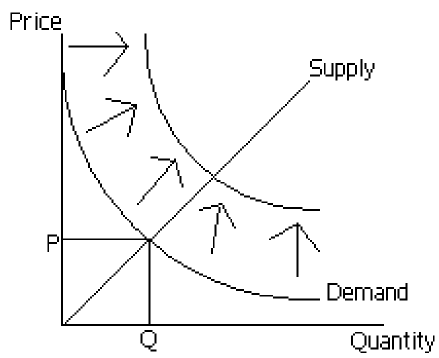
    -
        - Demand increases with taste change
        - Equilibrium price goes up, shortage
        - Price goes up, QD goes down and QS goes up
        - Demand breaks, surplus
        - Sellers must lower price, and people want more
        - New equilibrium?
    - Market WILL work

<u>Day Thirteen</u>

- Price is determined by forces of supply and demand
- In every market there is supply, demand, and their determinants
- Equilibrium QS = QD
    - If not, pressure on market for price to go up or down
    - No incentive at equilibrium for price to change

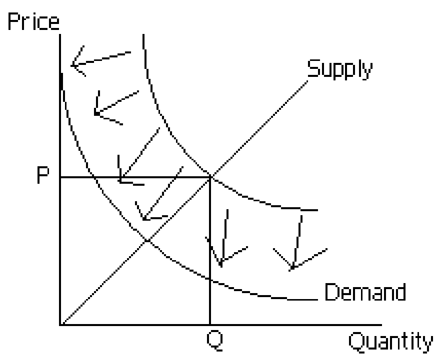
- Reasons for change
  - Demand or supply changes

Increase in <u>Demand</u>



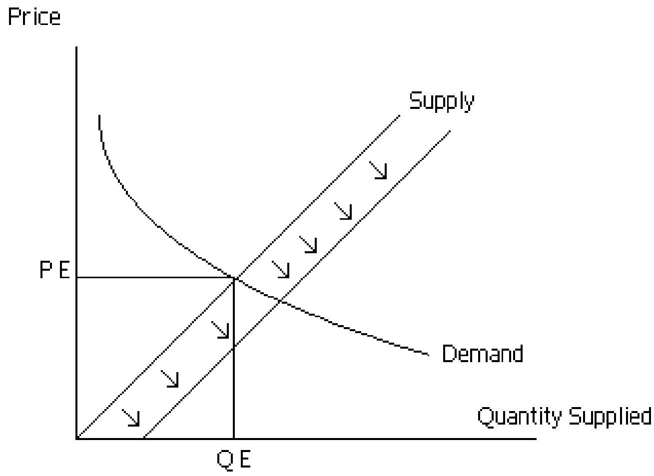
- After change, price is below equilibrium
- Shift in demand -> shortage
- Market will move to a new higher equilibrium

Decrease in <u>Demand</u>



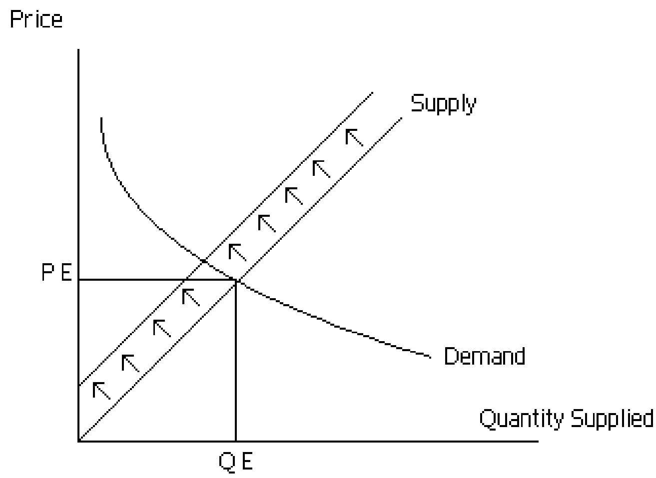
- Results in a surplus
- Firms compete to sell product and move to a new equilibrium

Increase in <u>Supply</u>



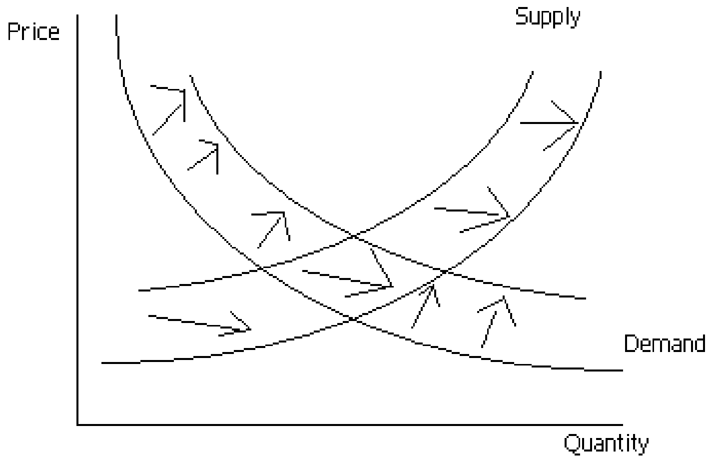
- Result is a surplus, which puts pressure on price to go down
- New equilibrium lower on demand curve

Decrease in Supply



- Creates shortage
- Pressure on price to go up
- New equilibrium higher on demand curve

- What happens with simultaneous shifts?
    - Technology increases supply
    - Taste increases demand



  - Lower price and greater quantity when increase in supply is greater than the increase in demand
  - Greater price and greater quantity if supply increase is less than the demand increase
    - Change in price indeterminate
- If supply declines and demand increases
  - If change in demand is greater than that in supply, quantity goes up
  - If change in supply is greater, quantity goes down
    - Quantity indeterminate