

**SUPPLY AND DEMAND**

*The Macro Economy Today*, 11<sup>th</sup> Edition  
By Bradley R. Schiller

Chapter 3

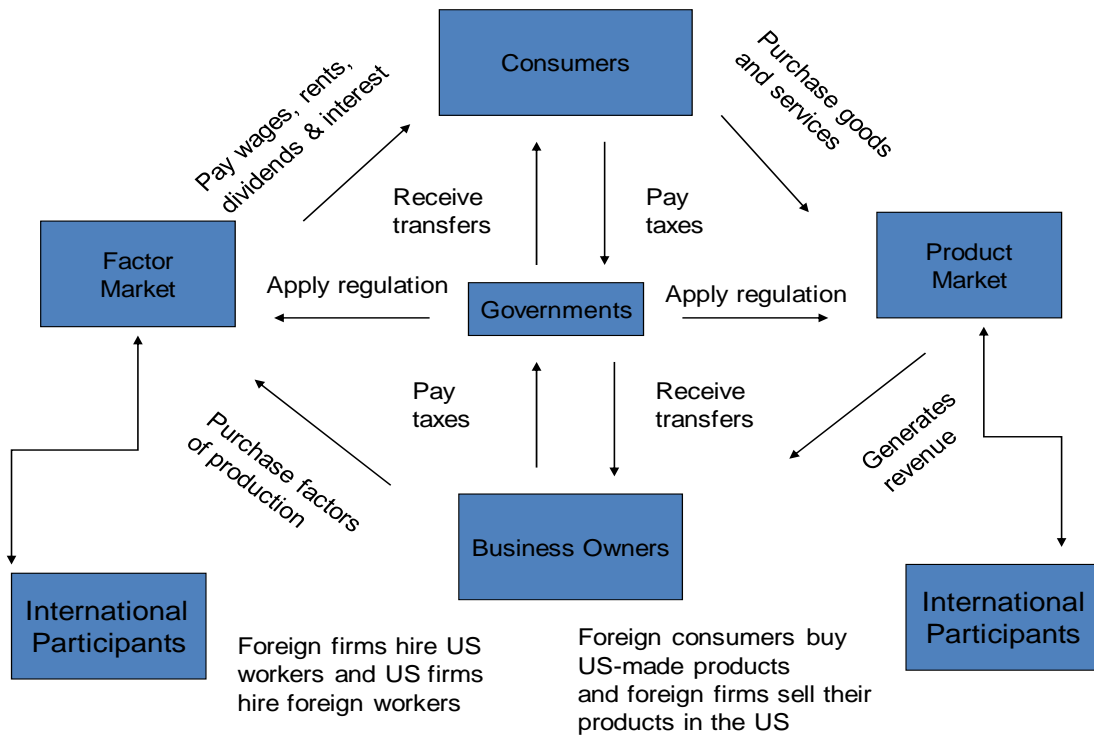
I. An Introduction to Market Analysis

A. Here in Chapter 3, we will discuss a subset of markets called \_\_\_\_\_

\_\_\_\_\_. In order to claim we have such a market, we need:

- 1.
- 2.

B. The Circular Flow of Income Model – also see Figure 3.1 on page 44 of the textbook



## II. The Concept of Demand

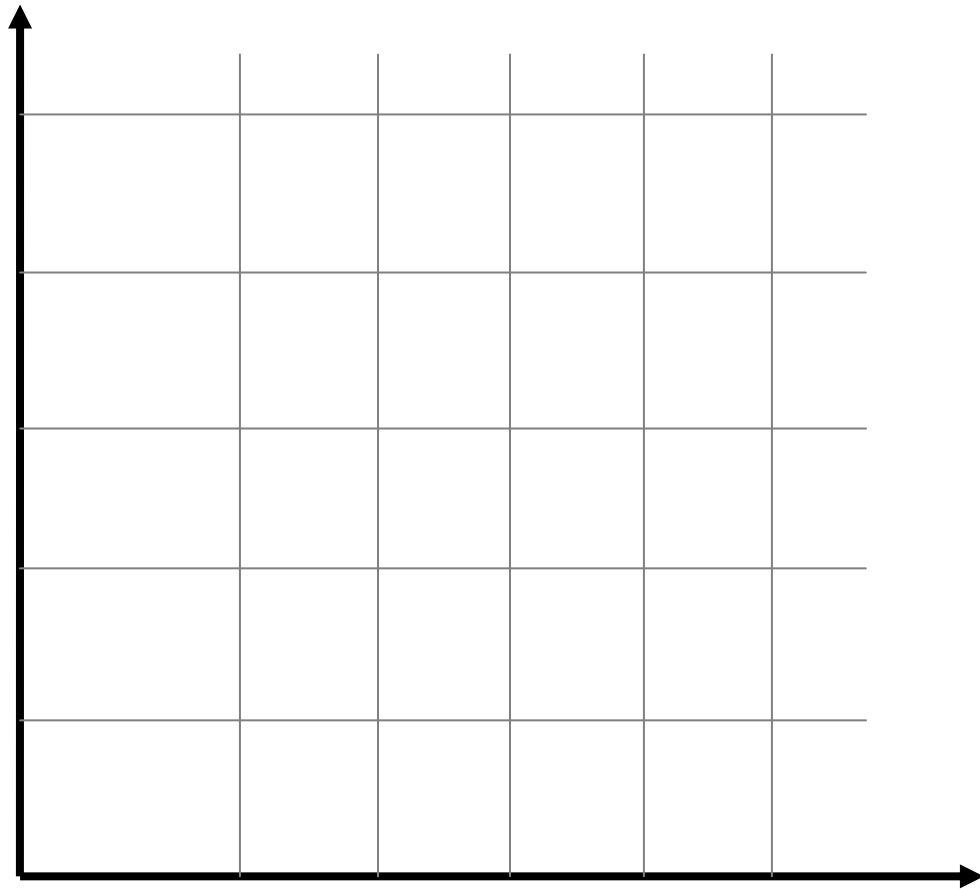
A. In Economics, DEMAND for a product exists only when:

B. The Law of Demand:

### 1. Example Market Demand Schedule for Pizza in Tallahassee

Price Per Pizza	Quantity Demanded Per Day
\$4	
\$8	
\$12	
\$16	
\$20	

2. Example Graph of the Market Demand Curve for Pizza in Tallahassee



3. FACT: A change in the price of a pizza \_\_\_\_\_ a change in the quantity demanded of pizza.

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### III. The Concept of Supply

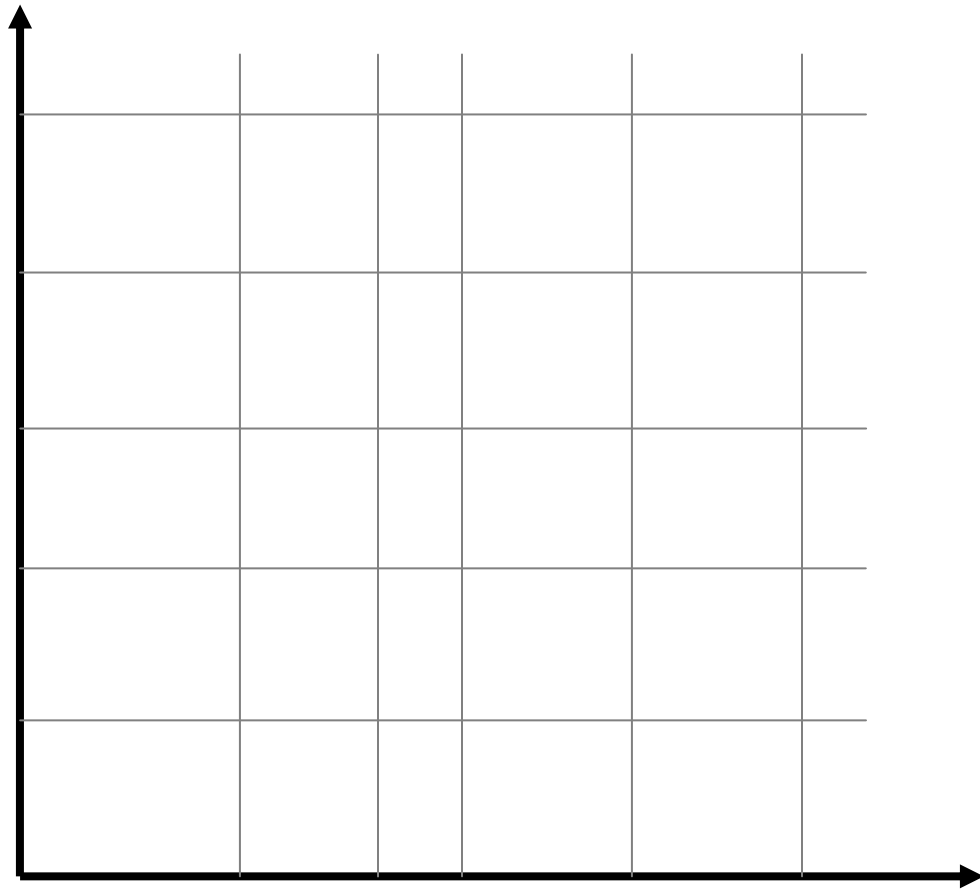
A. In Economics, SUPPLY of a product exists only when:

B. The Law of Supply:

#### 1. Example Market Supply Schedule for Pizza in Tallahassee

Price Per Pizza	Quantity Supplied Per Day
\$4	
\$8	
\$12	
\$16	
\$20	

2. Example Graph of the Market Supply Curve for Pizza in Tallahassee



3. FACT: A change in the price of pizza \_\_\_\_\_ a change in the quantity supplied of pizza.

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#### IV. How is the Price of a Product Determined?

A. In a Competitive market, price is determined through the interaction of:

1. There's only ONE PRICE that is compatible with BOTH:

2. At the ONE PRICE (called the equilibrium price):

3. Table Example – The Tallahassee Pizza Market

Price Per Pizza	Market Quantity Demanded ( $Q_D$ )	Market Quantity Supplied ( $Q_S$ )	Status of the Market
\$4	1,200 pizzas	500 pizzas	
\$8	1,000 pizzas	700 pizzas	
\$12	800 pizzas	800 pizzas	
\$16	600 pizzas	1,100 pizzas	
\$20	400 pizzas	1,400 pizzas	

4. Graph Example



B. Market Shortage

1. Definition:

2. Return to the table

3. Graph to illustrate a shortage in the market for pizza in Tallahassee



4. Shortages will occur when a product is:

C. Market Surplus

1. Definition:

2. Return to the table

3. Graph to illustrate a surplus in the market for pizza in Tallahassee



4. Surpluses will occur when a product is:

#### D. The Big Implication

1. When a Competitive Market is NOT in equilibrium:

2. When a shortage exists:

3. When a surplus exists:

#### V. Changes in Equilibrium Outcomes

Fact: No equilibrium price is permanent!

##### A. Demand-driven Changes

1. Factors other than price influence the buying decisions of consumers.

2. Determinants of Demand

a.

b.

c.

d.

e.

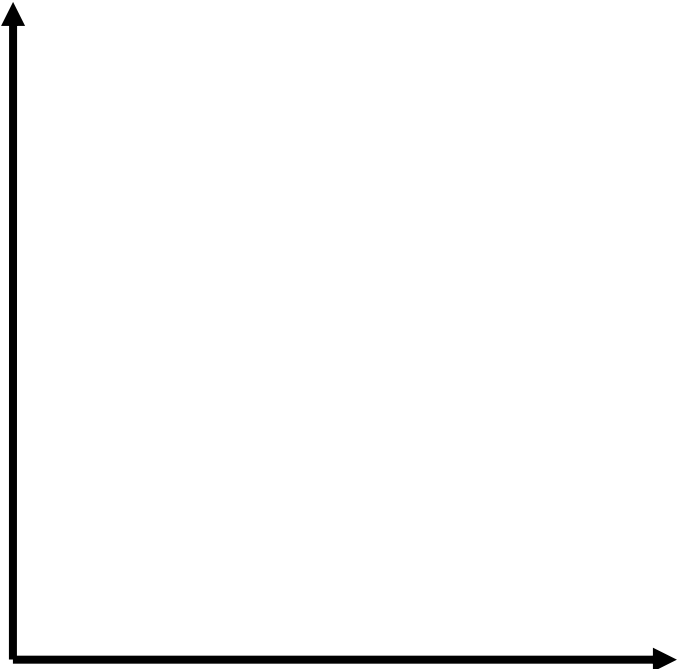
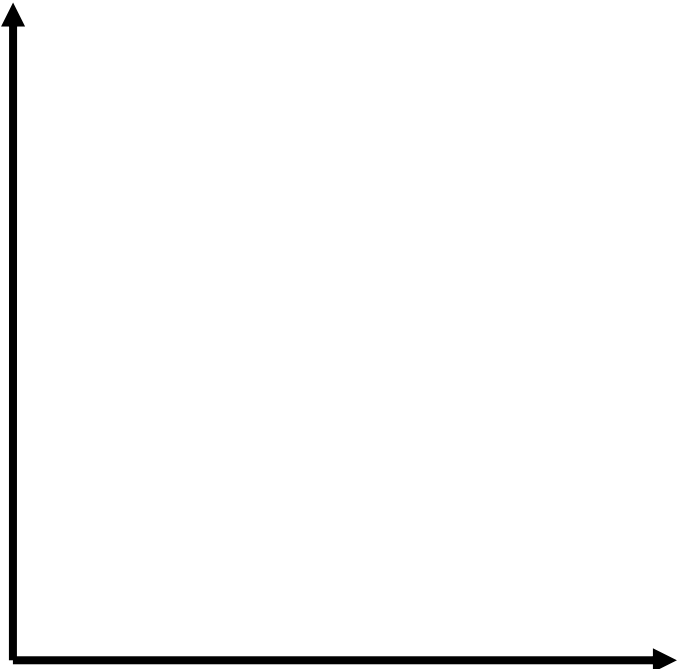
3. When a Determinant of Demand changes:

a. Consumers become more (or less) willing to purchase \_\_\_\_\_  
\_\_\_\_\_ .

b. The Demand Curve \_\_\_\_\_ its position on the graph.

c.

4. Graphical Illustrations



B. Supply-driven Changes

1. Factors other than price influence the production decisions of business owners.

2. Determinants of Supply

a.

b.

c.

d.

e.

f.

3. When a Determinant of Supply changes:

a. Business owners become more (or less) willing to produce \_\_\_\_\_

\_\_\_\_\_ .

b. The Supply Curve \_\_\_\_\_ its position on the graph.

c.

4. Graphical Illustrations

