

**SUPPLY AND DEMAND**

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

Chapter 3

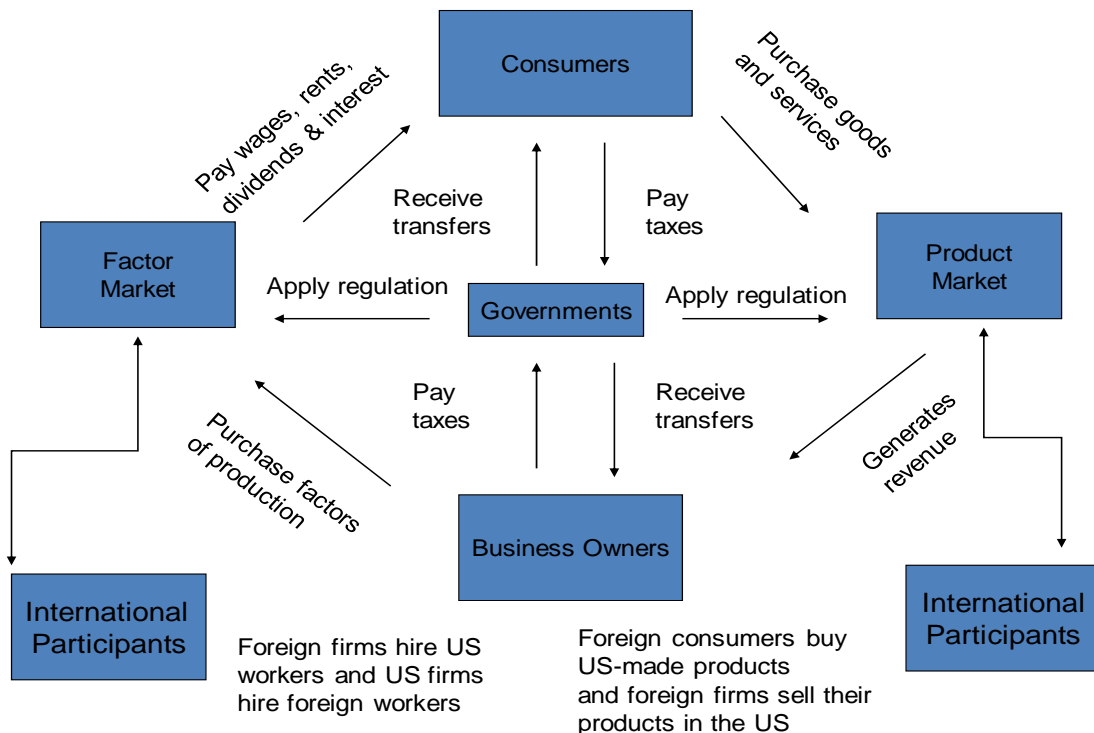
I. An Introduction to Market Analysis

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

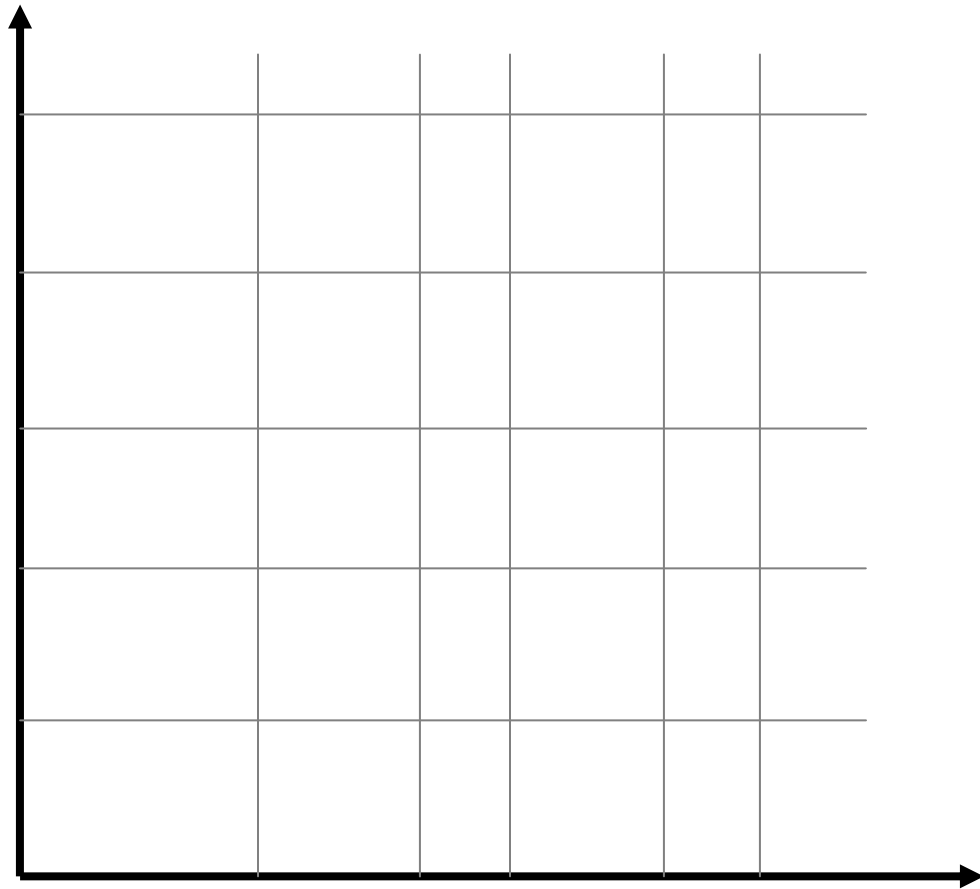
A. In Economics, DEMAND for a product exists ONLY when:

B. The Law of Demand:

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

Price Per Shirt	Quantity Demanded Per Month
\$10	
\$15	
\$20	
\$25	
\$30	

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



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

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4. What does the HEIGHT of the demand curve represent?

### III. The Concept of Supply

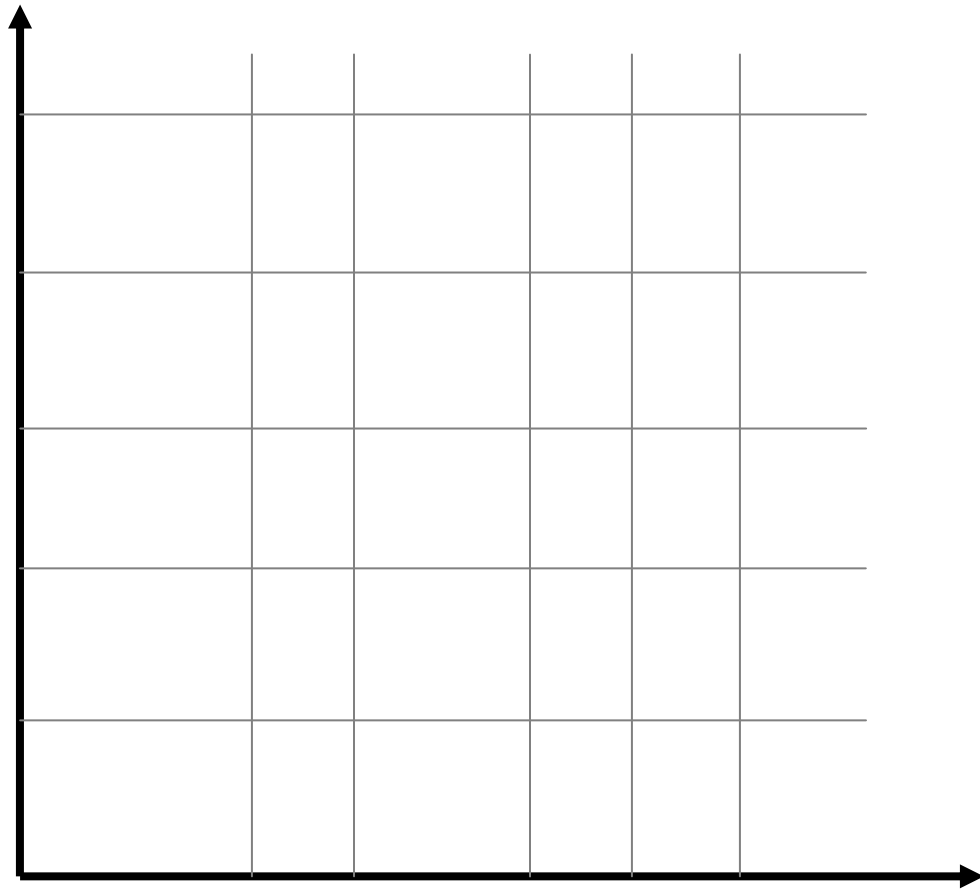
A. In Economics, the SUPPLY of a product exists ONLY when:

B. The Law of Supply:

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

Price Per Shirt	Quantity Supplied Per Month
\$10	
\$15	
\$20	
\$25	
\$30	

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



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

=>

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

A. 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 Shirt Market

Price Per Shirt	Market Quantity Demanded ( $Q_D$ )	Market Quantity Supplied ( $Q_S$ )	Status of the Market
\$10	900 shirts	300 shirts	
\$15	800 shirts	400 shirts	
\$20	600 shirts	600 shirts	
\$25	500 shirts	700 shirts	
\$30	300 shirts	800 shirts	

4. Graph Example – The Tallahassee Shirt Market



B. Market Shortage

1. Definition:

2. Return to the table

3. Graph to illustrate a shortage in the market for shirts 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 shirts 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:

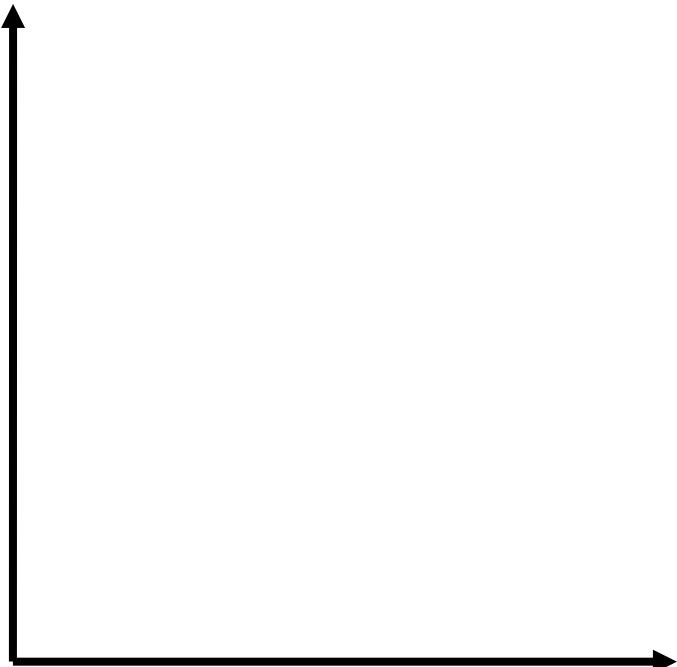
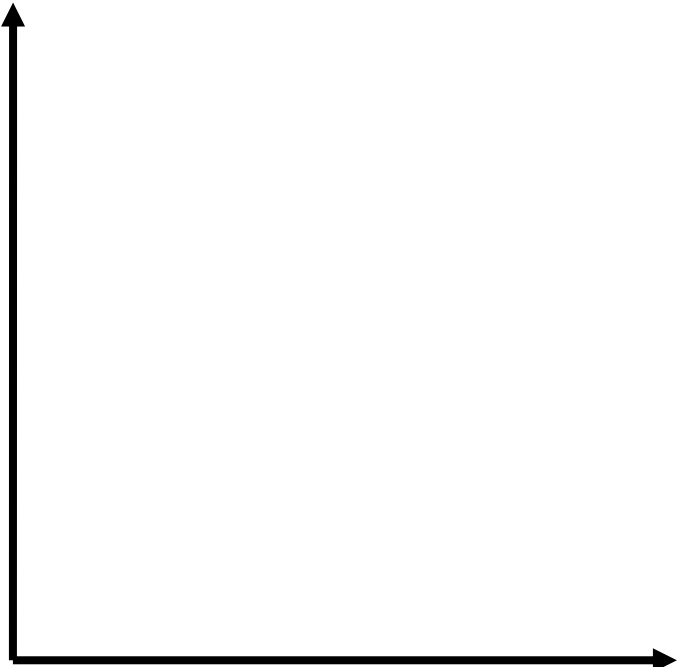
a. Consumers become more (or less) willing to purchase \_\_\_\_\_

\_\_\_\_\_ .

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

