

4 Demand

5 Supply and Equilibrium

6 Changes in Equilibrium

7 Price Controls and Quantity Controls

8 International Trade



Supply and Demand: A Model of a Competitive Market

- Five key elements:
 - Demand curve
 - Supply curve
 - Demand and supply curve shifts
 - Market equilibrium
 - Changes in the market equilibrium

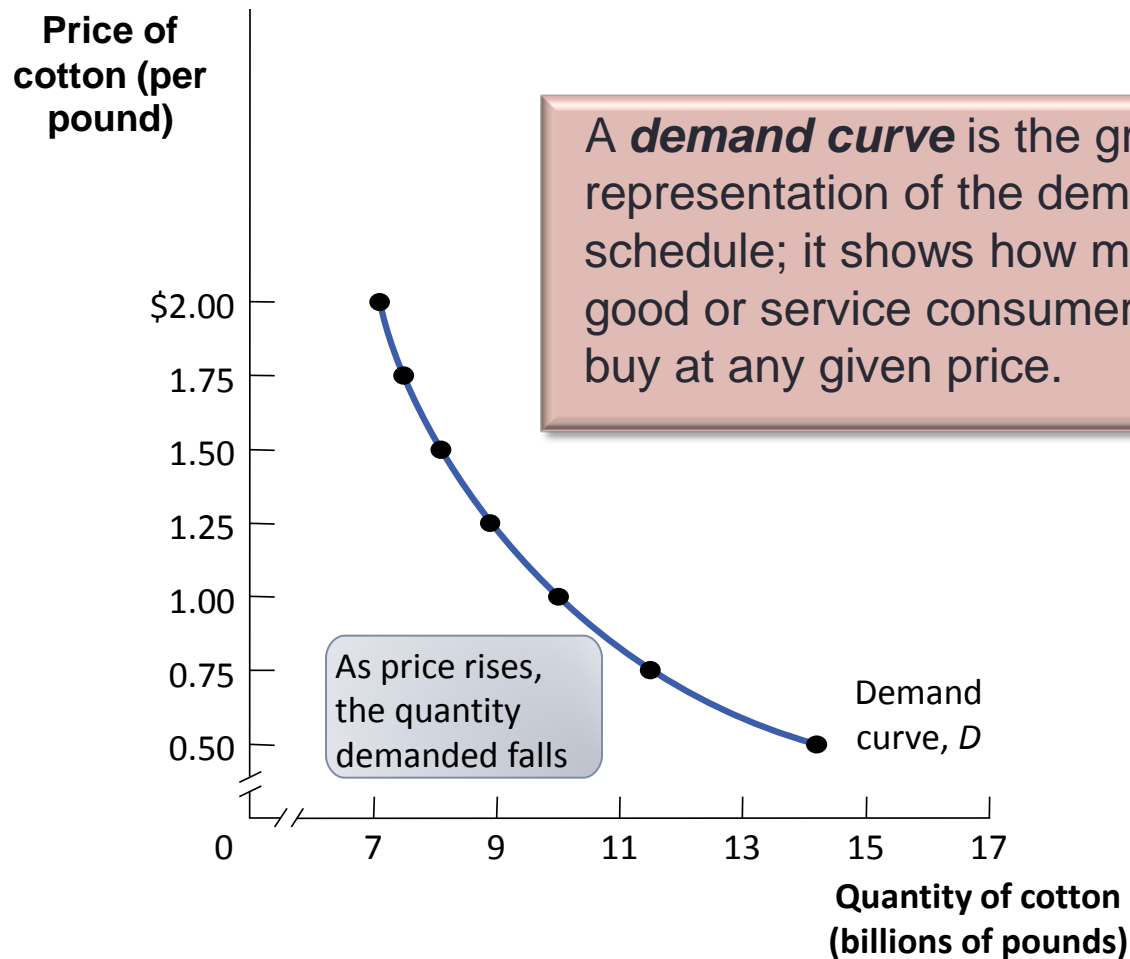
The Demand Schedule

- A **demand schedule** shows how much of a good or service consumers will want to buy at various prices.



Demand Schedule for Cotton	
Price of cotton (per pound)	Quantity of cotton demanded (billions of pounds)
\$2.00	7.1
1.75	7.5
1.50	8.1
1.25	8.9
1.00	10.0
0.75	11.5
0.50	14.2

The Demand Curve



The Law of Demand

- The **law of demand** says that other things being equal, the price and quantity demanded of a good are negatively related.

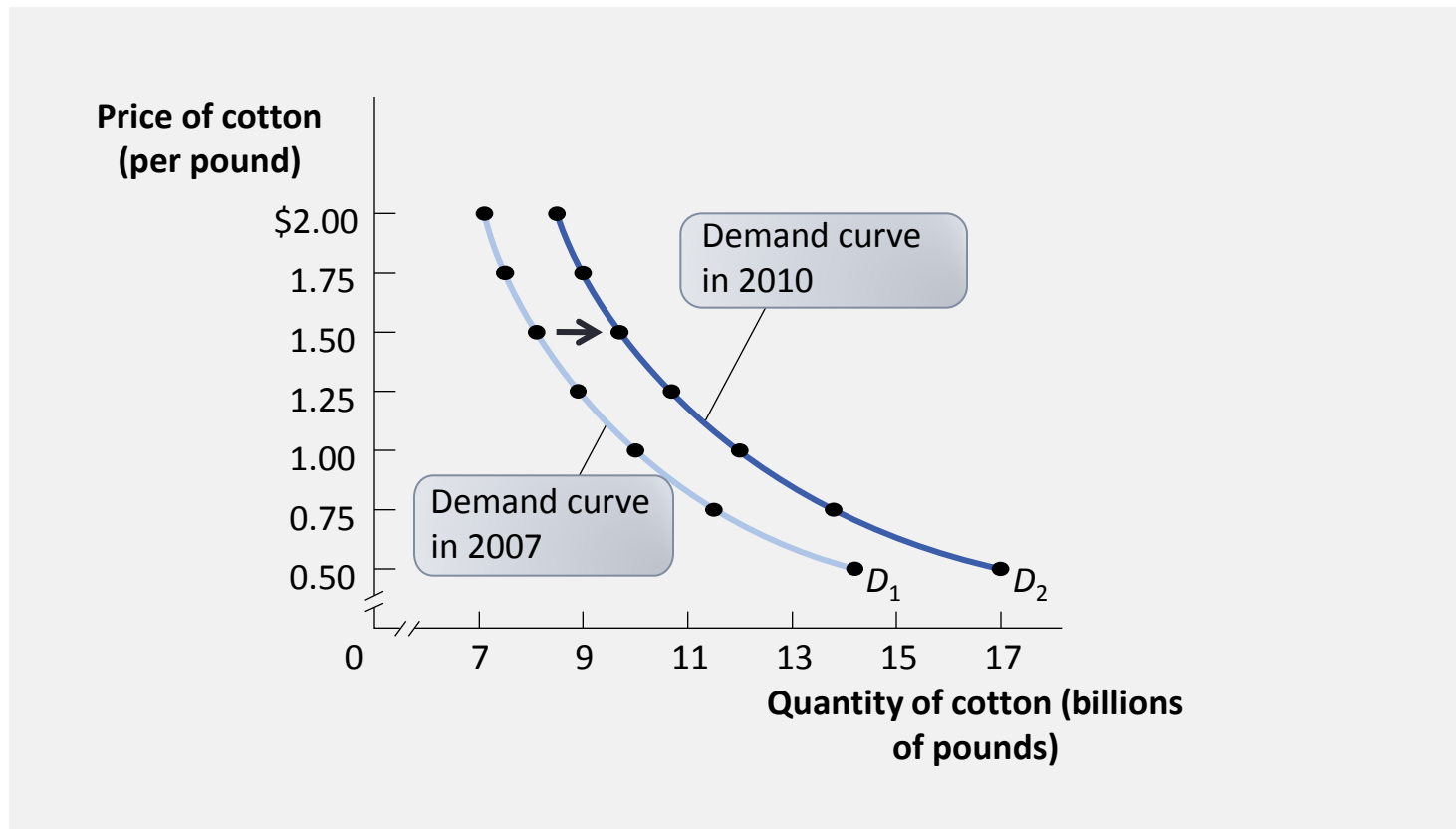
Shifts of the Demand Curve

- An increase in the population and other factors generates an increase in demand—a rise in the quantity demanded at any given price.

Demand Schedules for Cotton

Price of cotton (per pound)	Quantity of cotton demanded (billions of pounds)	
	in 2007	in 2010
\$2.00	7.1	8.5
1.75	7.5	9.0
1.50	8.1	9.7
1.25	8.9	10.7
1.00	10.0	12.0
0.75	11.5	13.8
0.50	14.2	17.0

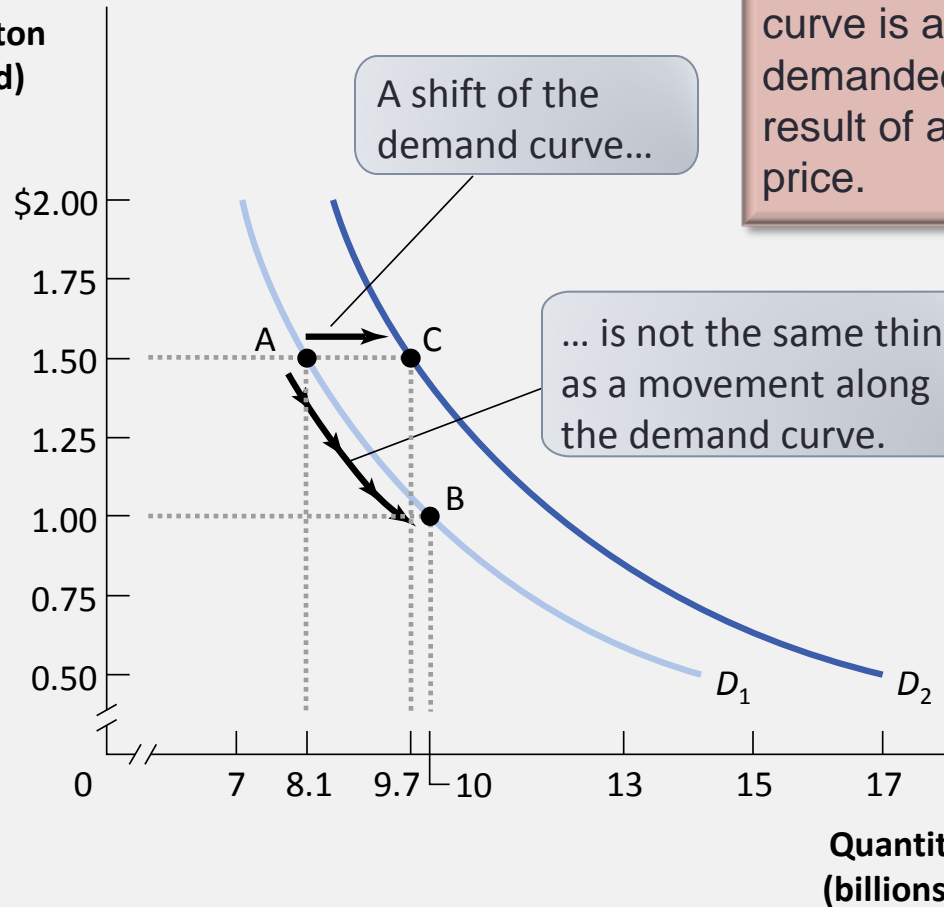
Shifts of the Demand Curve



A **shift of the demand curve** is a change in the quantity demanded at any given price, represented by the original demand curve moving to a new position.

Movement Along the Demand Curve

Price of cotton
(per pound)



A movement along the demand curve is a change in the quantity demanded of a good that is the result of a change in that good's price.

What Causes Shifts in the Demand Curve?

- Changes in the prices of related goods
 - **Substitutes:** *Fall in the price of one good makes consumers less willing to buy the other good.*
 - **Complements:** *Fall in the price of one good makes people more willing to buy the other good.*
- Changes in income
 - **Normal goods:** *When incomes rise, the demand increases.*
 - **Inferior goods:** *When incomes fall, the demand increases.*
- Changes in tastes
- Changes in expectations

Individual and Market Demand Curve

The market demand curve is the *horizontal sum* of the individual demand curves of all consumers in that market.

