WEEK2: SUPPY AND DEMAND

1. Demand

The relationship between quantity demanded and price (law of demand)
The demand curve
Other determinants of demand
Movements along and shifts in the demand curve

2. Supply

The relationship between quantity supplied and price (law of supply)
The supply curve
Other determinants of supply
Movements along and shifts in the supply curve

3. Price and output determination

Equilibrium price and quantity
Movement to a new equilibrium

4. The control of prices

Setting a minimum price: price floor
Setting a maximum price: price ceiling

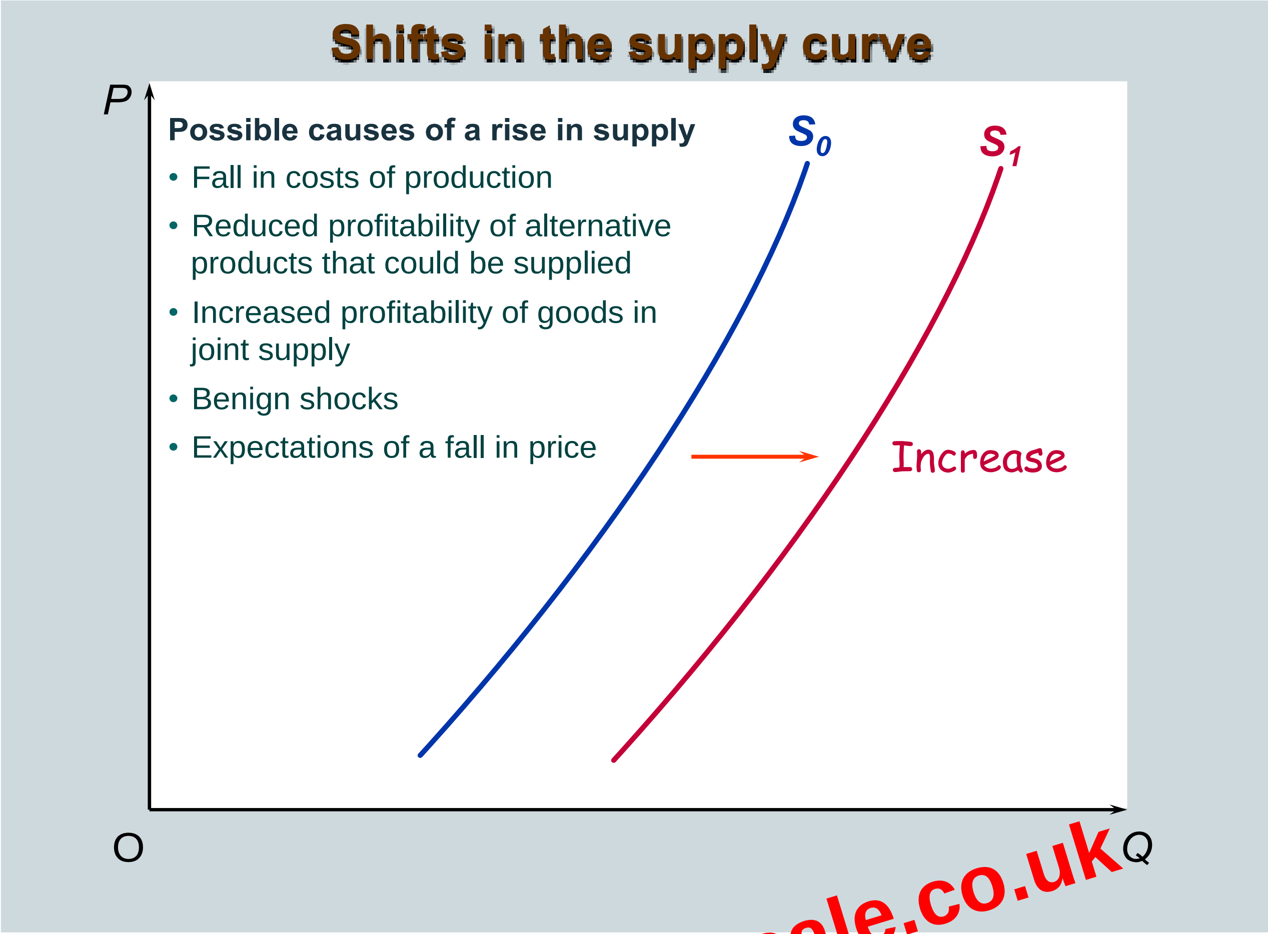
1. Demand

Law of demand

Example: major crop failures in Brazil: coffee prices soar; what do you do?
Cut back on the amount of coffee you drink.
Relationship: when P rises then Qd falls
2 reasons: a) people feel poorer; not able to afford; purchasing power falls (income effect);
b) the good will now cost more than alternative (substitute) goods and people will switch to these (substitution effect).
Warning: 1) quantity demanded different than what people would *like* to consume;
2) quantity demanded different than demand.
Quantity demanded is the amount of a good that a consumer is willing and able to buy at a given price over a given period of time.
Demand is the relationship between the price of a good and the quantity demanded over a given time period.

The demand curve

Consider the data in the table: The demand for potatoes (monthly)



Movements along and shifts in the supply curve

A movement along a supply curve = change in quantity supplied
A shift in the supply curve = change in supply