## Demand & Supply

- **Demand:** the quantity of a good or service that consumers are willing and able to buy at a given price in a given time period

**FACTORS THAT CAUSE A SHIFT IN DEMAND**

- Income
  - Normal goods - ↑Y → ↑D
  - Inferior goods - ↑Y → ↓D
- Price of other goods
  - Substitutes - ↑$P_a$ → ↑$D_b$
    - e.g. Pepsi & Coke
  - Complements - ↑$P_a$ → ↓$D_b$
    - e.g. golf balls & clubs
- Tastes and preferences
- Size of population
- Changes in age structure
- Changes in income distribution
- Government policy changes
- Seasonal changes

**Demand function:**

$Q_D = a - bP$

- **Supply:** the quantity of a good or service which the seller is willing and able to provide at a given price in a given time

**FACTORS THAT CAUSE A SHIFT IN SUPPLY**

- Demand for producer's other goods
  - ↑$P_a$ → ↓$D_b$
    - Producer shifts focus to higher priced good
- Costs of production
- Government action
  - Indirect tax → ↓S
  - Subsidy → ↑S
- Technology
- Weather
- Expectations
  - If ↑P, firm may stockpile to sell later

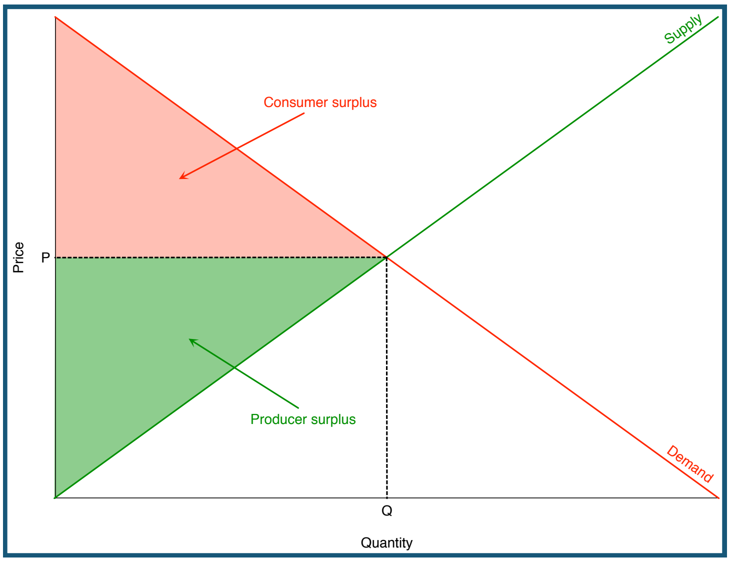
**Supply function:**

$Q_S = c + dP$



## Market equilibrium & efficiency

- Equilibrium occurs when S = D
- **Allocative efficiency:** when the socially optimum quantity of a good or service is produced and consumed; *just* the right amount of scarce resources are going into the production of a good or service; when *community surplus is maximised*
- **Consumer surplus:** the difference between the equilibrium price and the higher price the consumer would have been willing and able to pay ∴ effectively a *bonus* for the consumer
- **Producer surplus:** the difference between the equilibrium price and the lower price the producer would have been willing and able to sell at ∴ effectively a *bonus* for the producer




**Community/social surplus:**

= consumer surplus + producer surplus