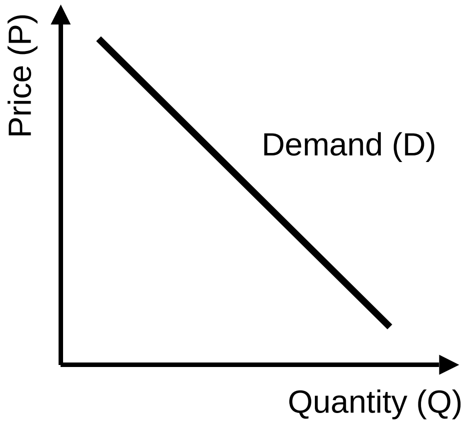
Demand, Supply, and Market Equilibrium

1 Demand

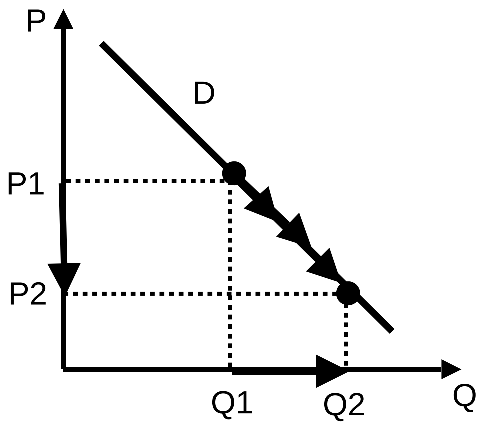
11a Demand curve



11b Law of demand

- **Higher** price ➔ **lower** quantity demanded
- **Lower** price ➔ **higher** quantity demanded

12a Movement along the D curve

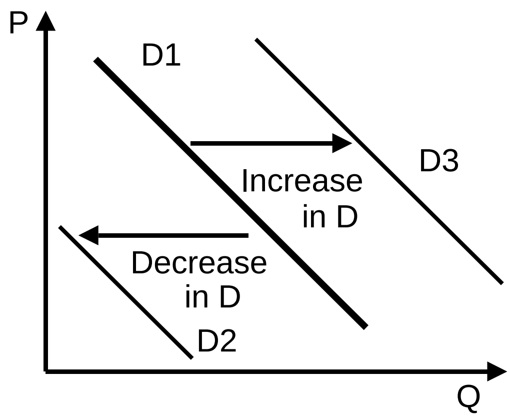


12b Ceteris paribus (other things being equal)

If the price falls from P1 to P2, the quantity demanded rises from Q1 to Q2 (➔ **movement along the D curve**).

Other variables, for example income, prices of other goods or tastes, do not change (➔ **ceteris paribus**). If these variables change, the D curve shifts.

13a Shifts in D curve



13b Possible reasons

Change in

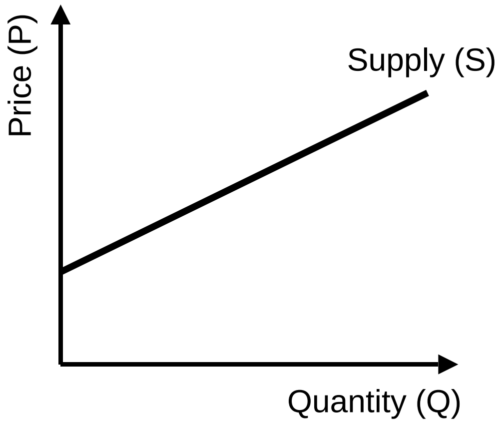
- income
- prices of other goods
- tastes
- the number of consumers

but **never**:

change in the price of the good in question (➔ movements along the D curve)

2 Supply

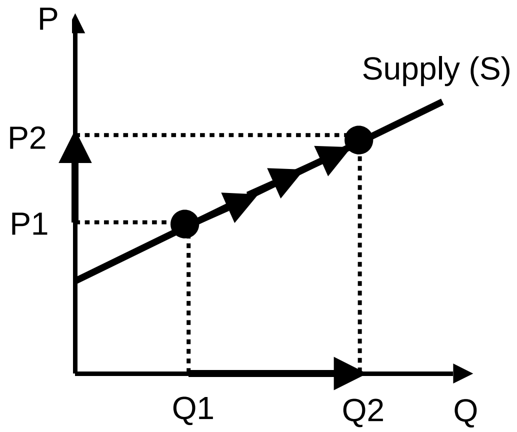
21a Supply curve



21b Law of supply

- **Higher** price ➔ **higher** quantity supplied
- **Lower** price ➔ **lower** quantity supplied

22a Movement along the S curve

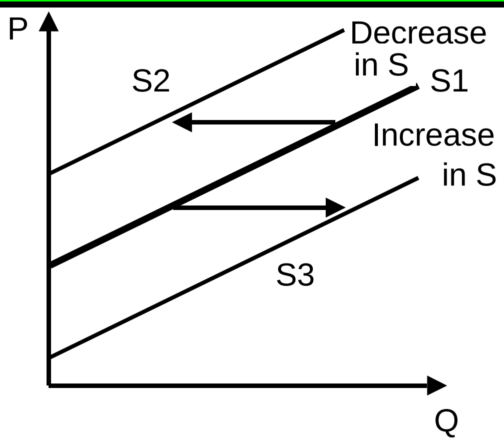


22b Ceteris paribus (other things being equal)

If the price rises from P1 to P2, the quantity supplied rises from Q1 to Q2 (➔ **movement along the D curve**).

Other variables, for example technology, costs, and regulations by the government, do not change (➔ **ceteris paribus**). If these variables change, the S curve shifts.

23a Shifts in S curve



23b Possible reasons

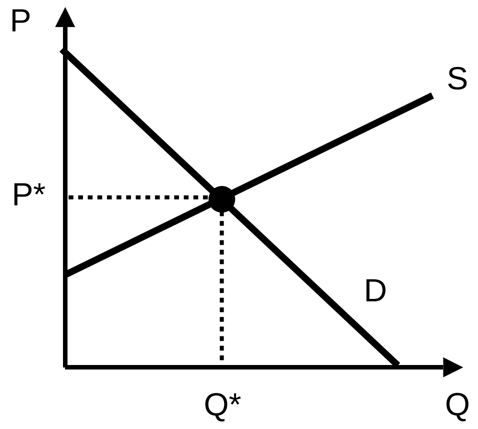
Change in

- technology
- costs
- regulation by the government (taxes, subsidies)
- the number of suppliers

but **never**:

change in the price of the good in question (➔ movements along the S curve)

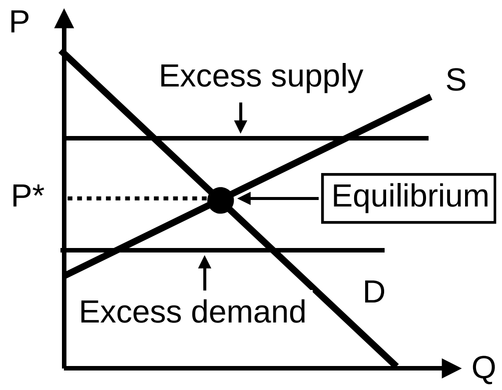
3 Market equilibrium



At the equilibrium P*/G*:

Quantity demanded = quantity supplied

4 Disequilibria and equilibrium



Case	Characteristic	Effect
Excess supply	Quantity demanded < quantity supplies	P falls
Equilibrium	Quantity demanded = quantity supplied	P does not change
Excess demand	Quantity demanded > quantity supplied	P rises