

(77)

MKTS   
 location/physical   
 network   
 demand for a product   
 price determination process

- ① Markets exist <sup>an</sup> in an economy — Econ — self-sustaining system of independent transactions creating flows of money and products
- ② two criteria for demand to exist   
 ① emotional/desire   
 ② financial means/income ability <sup>willingness &</sup>
- ③ GR =  $\downarrow$  price  $\uparrow$  <sup>qty</sup> demand   
 ① income effect best explains increase as generally, lower prices leaves consumers  $\uparrow$  more income to spend on product   
 — no true substitute for milk   
 ② key word — BRAND — substitution effect best explains  $\uparrow$  in Qty demanded as consumers shift from higher-priced to lower-priced BRANDS
- ④ Supply curve upward/positive slope b/c as mkt prices rise incentive/profit possibilities increase   
 — thus enter market   
 — or sell more if already in market

(88)

Factors impact on demand

- ① ② FACTOR = tastes/preferences/advertising EFFECT =  $\uparrow$  demand
- ③ FACTOR =  $\downarrow$  income EFFECT =  $\downarrow$  demand
- ④ FACTOR =  $\downarrow$  price substitute EFFECT =  $\downarrow$  demand
- ⑤ FACTOR = speculation of  $\uparrow$  price EFFECT =  $\uparrow$  demand

Factors impact on supply

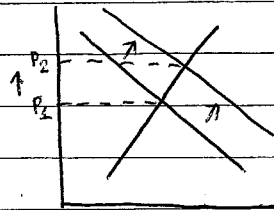
- ② ①  <sup>$\downarrow$  production costs</sup> FACTOR =  $\uparrow$  technology <sup>PRODUCTION COSTS</sup> EFFECT =  $\uparrow$  supply (ability to produce at lower costs)
- ③ FACTOR =  $\uparrow$  production costs (labour) EFFECT =  $\downarrow$  supply
- ④ FACTOR =  $\uparrow$  mkt price EFFECT = Qty supplied  $\uparrow$  (movement along)
- ⑤ FACTOR =  $\downarrow$  production costs (tax) EFFECT =  $\uparrow$  supply
- ⑥ FACTOR =  $\downarrow$  # of suppliers/competition EFFECT =  $\downarrow$  supply (short term)

③ movement or shift?

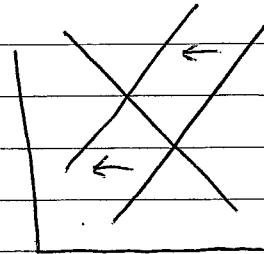
- ① price  $\downarrow$  demand  $\uparrow$  = Qty ~~supply~~ demanded  $\uparrow$  (movement)
- ②  $\downarrow$  prod. costs =  $\uparrow$  supply (shift) RIGHT
- ③  $\downarrow$  disposable income =  $\downarrow$  demand (shift) LEFT
- ④  $\uparrow$  price =  $\uparrow$  Qty supplied

90 EFFECT ON EQUILIBRIUM PRICE

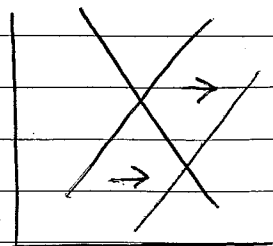
(1) (a) Price increases



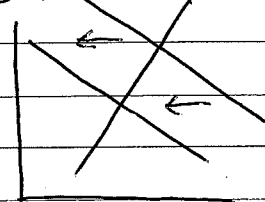
(b) price rises



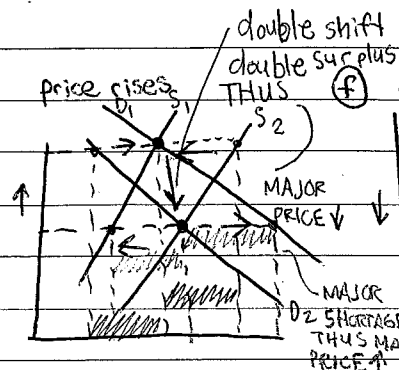
(c) price decreases



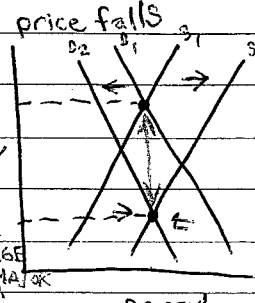
(d) price falls



(e) price rises



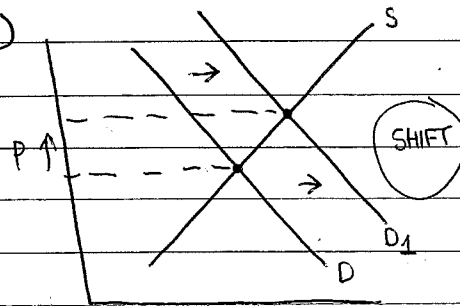
(f) price falls



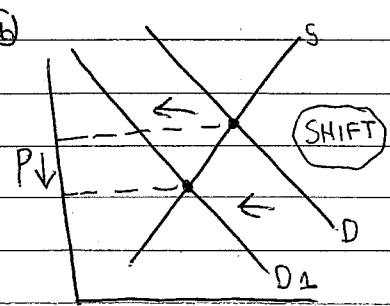
(2) scenarios in N. American gas/oil mkt.

/ only one factor affect Demand supply

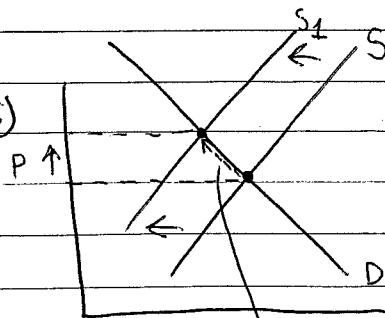
(a)



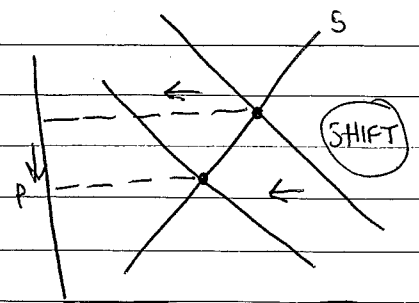
(b)



(c)



(d)



MOVEMENT ALONG  
due to resulting  $\Delta$   
in supply (SHIFT)

Check Your Understanding (77) 1 through 4

Ceteris Paribus - (74) questions

Market Equilibrium

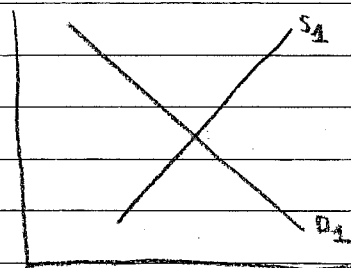
Primary Source - Which is more important: Demand or supply? questions (79)

Check your understanding (88) 1 through 3

The Determination of Price

↳ Check your understanding (90) 1 through 2

COLOURED  
CHALK

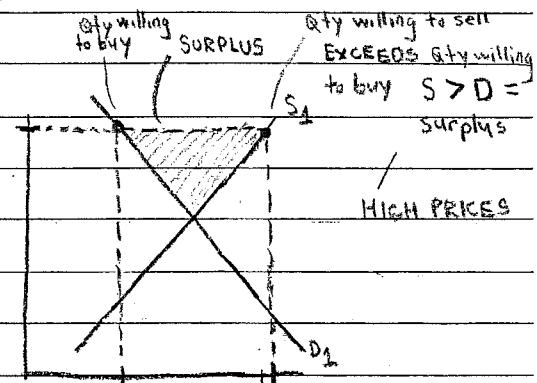
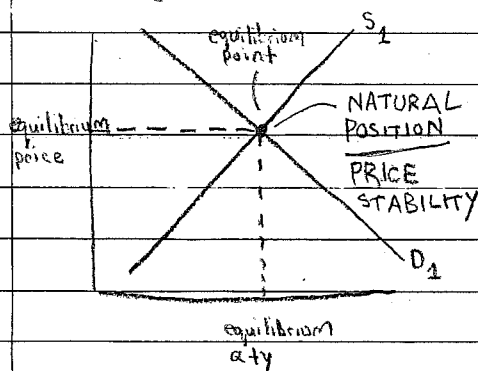


students find/determine

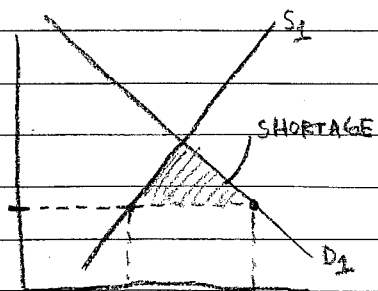
equilibrium price  
shortage position  
surplus position

market equilibrium and  
ceteris paribus \*\*\*

original position



GR = a price above equilibrium  
will result in a SURPLUS and  
a price below a SHORTAGE



$D > S = \text{shortage}$

LOW PRICES

