INTRODUCTION TO MARKETS

➔ **Markets**

Definition: A market is a group of buyers and sellers of a particular good or service.

- Where trade of an item takes place
- Buyers determine the demand for the product.
- Sellers determine the supply of the product.
- Supply and demand are the forces that make market economies work. They determine the quantity of each good produced and the price at which it is sold.

- **Trade:**

  Trade occurs between buyers and sellers if they both believe MB>MC

  - Buyers: MB = Benefit from buying an item, MC = price paid for an item
  - Sellers: MB = Price received for selling an item, MC = opportunity cost of supply of an item

- **Forms of markets:**
  - Highly organized: Buyers and sellers meet at a specific time and place, where an auctioneer helps set prices and arrange sales.
    - E.g. Share market
  - Less organized: Buyers do not meet together at one time and place, and sellers are in different locations offering different products. Each seller posts their own price and buyers decide how much they want to buy of a good.
    - E.g. Market for ice cream in a town.

➔ **Competitive Market:**

Definition: A competitive market is a market where there are many buyers and sellers so that each has a negligible impact on the market price.

- Each seller has limited to no control over price because there is strong competition from other sellers offering similar products.

- **Perfectly Competitive Market:**
  - Highest form of competition in a competitive market. Strong competition
  - The main elements of the perfectly competitive market model: Demand/Supply + Equilibrium

  Characteristics of a perfectly competitive market:

  - **Homogenous Products:** Goods and services offered for sale are all exactly the same. No product differentiation.
  - A number of buyers and sellers
  - **No Market Power:** No single buyer or seller has any influence over the market price.
  - **Price Takers:** Buyers and sellers must accept the price the market determines.
    Market Price = buyers can buy all they want and sellers can sell all they want.
  - There is ease of entry and exit into the market
  - All buyers and sellers operate with perfect information. Have access to all prices and the availability of resources. (This is unrealistic)

➔ **Market Demand**

Definition: Quantity demanded is the amount of a good or service that buyers are willing and able to purchase.

- The price of a good or service is the main determinant of quantity demanded. This is explained through the *Law of Demand.*

Law of Demand: As price rise, the quantity demanded contracts (falls). However if price falls, the quantity demanded expands (increases).

- Quantity demanded is *negatively* related to the price.
- Change in price is a movement ALONG the demand curve

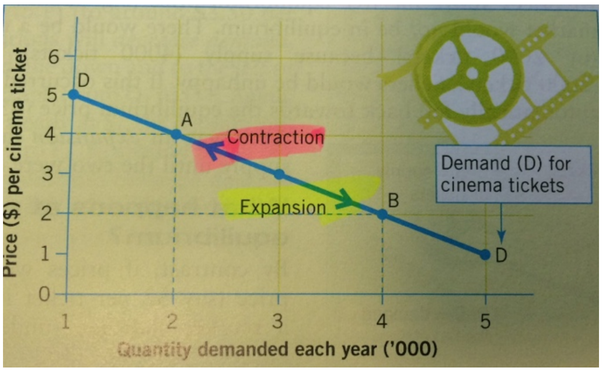
Market Demand Schedule: A table that shows the relationship between the price of a good and the quantity demanded.

- We use the market demand schedule to help draw the demand curve.

Price of Ice-Cream Cone	Quantity of Cones Demanded
$0.00	12 cones
0.50	10
1.00	8
1.50	6
2.00	4
2.50	2
3.00	0

Demand Curve: A graph of the relationship between the price of a good and the quantity demanded.

- The demand curve is from the top left to bottom right.
- Contraction in (D): The point on the line shifts up
- Expansion in (D): The point on the line shifts down



This diagram represents the contraction or expansion of a demand curve when there is a change in price.

We move ALONG the curve when there is a change in price.

Vertical Axis is always price
Horizontal Axis is always quantity demanded.

NOTE*: The change in price will not cause the demand curve to shift left or right. It is the microeconomic demand side conditions that will shift the curve.

Market Demand

Definition: Market demand is the sum of all individual demand in that market.