# ECONOMICS FOR BUSINESS 23115

## MICROECONOMICS

## LECTURE 1 – SUPPLY AND DEMAND

### SUPPLY AND DEMAND

- Considers how buyers and sellers behave and interact with one another in competitive markets
- Shows how interaction determines the quantity of each good/service and the price at which it is sold

### MARKETS AND COMPETITION

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

- Can be physical or virtual (e.g. Paddy's markets, eBay)
- Can be organized or disorganized (e.g. Fish markets, market for ice-cream)

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

**Perfectly competitive:**

- Goods for sale are all exactly the same (homogenous)
- The buyers and sellers are so numerous that none can influence the market price

Because buyers and sellers accept the market price they are called "price takers"

- There are some markets in which the assumptions of perfect competition apply well – e.g. *agricultural markets*
- Some markets where there is no competition at all (monopoly) → Seller sets the price (price setter)

Buyers DEMAND and sellers SUPPLY

### DEMAND

**Quantity demanded** of a good is the amount of a good that buyers are willing and able to purchase

- Willing: A buyer wants to buy (based on *preferences*)
- Able: Given the price – the purchaser has enough income to buy the desired product/amount
    - E.g. Willing to buy a BMW but doesn't have $80k disposable income

**Law of demand** – With other things equal, the quantity demanded of a good falls when the price of a good rises (vice versa)

Relationships between price and quantity can be shown by:

- **Demand schedule** → table showing the relationship between the price of a good and the quantity demanded
- **Demand curve** → graph showing relationship between the price of a good and the quantity demanded

#### MARKET DEMAND VS INDIVIDUAL DEMAND

**Market demand** is the sum of all individuals' demands for a particular good or service

- E.g. Person A wants 3 of product X and person B wants 6 of product X → Market demand is 9
- Graphically, individual demand curves are summed horizontally to obtain the market demand curve

The market demand curve shows how the total quantity demanded of a good varies with the price of the good – *holding all other factors constant*

## MOVEMENTS ALONG THE DEMAND CURVE

A change in the price of the good generates movement along the demand curve → change in the quantity demanded

## SHIFTS IN THE DEMAND CURVE

- Shifts either to the left or right → results in a change in demand – with a change in demand, the quantity demanded changes at every price

### WHAT ARE THE FACTORS OTHER THAN PRICE THAT AFFECT DEMAND?

**Income** → The relationship between income and demand depends on what type of good the product is

- Normal good = increase in income leads to an *increase in demand*
- Inferior good = increase in income leads to a *decrease in demand*

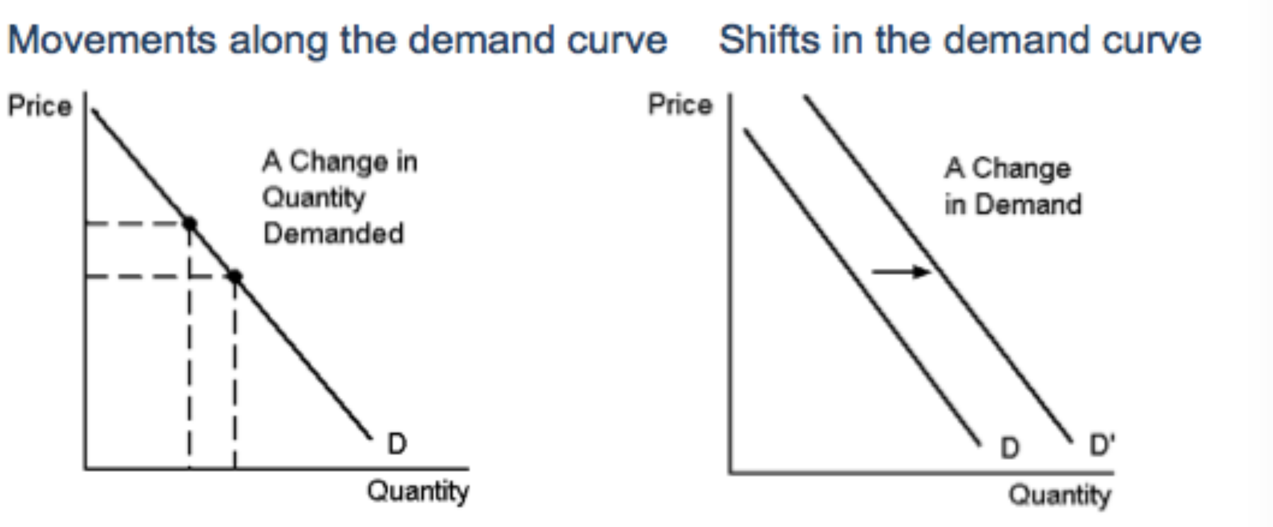
**Price of related goods** → The relationship between the price of a related good and demand depends on what type of goods the products are

- Substitutes = two goods for which a decrease in the price of one good leads to a decrease in the demand for the other good
- Complements → two goods which a decrease in the price of one good leads to an increase in the demand for the other good

**Tastes** → If you like something you buy more of it (economists tend to examine what happens when tastes change)

**Expectations** → e.g. future income, future price of the good

**Number of buyers** → Because market demand is derived from individual demands, it positively depends on the number of buyers




## SUPPLY

**Quantity supplied** is the amount of a good that sellers are willing and able to sell

**Law of supply** the law of supply states that, other things being equal the quantity supplied of a good rises when the price of a good rises and vice versa

Two ways of representing relationship between price and quantity:

- Supply schedule → table
- Supply curve → graph

### MARKET SUPPLY VS INDIVIDUAL SUPPLY

Market supply is the sum of all individuals' supplies for a particular good or service

### SHIFTS IN THE SUPPLY CURVE

We sat that a supply curve shows how the quantity supplied varies with the price of the good, *holding all other factors constant*

- A change in one or more of these "other factors" (i.e. a determinant other than price) generates a shift in the supply curve, either to the left or right
    - Denoted as a change in supply (as opposed to change in quantity supplied)

#### WHAT FACTORS AFFECT SUPPLY? (OTHER THAN PRICE)

**Input prices** → the quantity supplied is negatively related to the price of inputs used to make the good → if the price of an input rises, supply decreases

**Technology** → an improvement in production technology increase productivity → with the same inputs, producers can supply more

**Expectations** → e.g. if the suppliers expect the price to rise they will be more likely to store some of the good, and supply less to the market today

**Number of sellers** → because market supply is derived from individual supply, it positively depends on the number of sellers

## LECTURE 2 – EQUILIBRIUM AND ELASTICITY

### EQUILIBRIUM

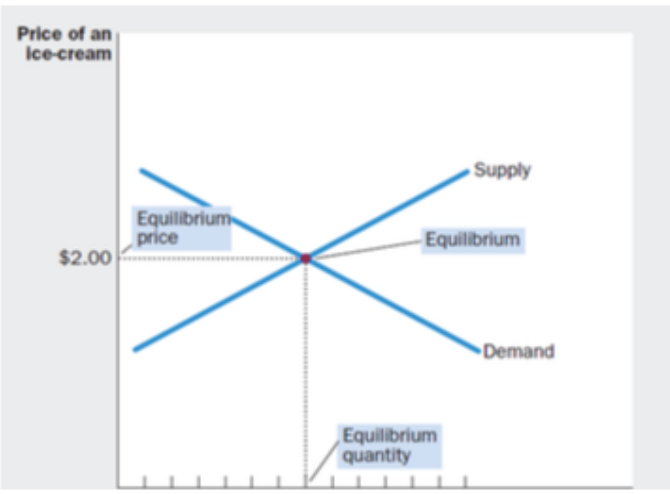
**Equilibrium** is a situation in which supply and demand have been brought into balance

**Equilibrium price:**

- The price that balances quantity supplied and quality demanded (nothing remains – no surplus or excess demand)
- On a graph it is the price at which supply and demand curves intersect

**Equilibrium quantity:**

- Both the quantity supplied and the quantity demanded at the equilibrium price
- On a graph it is the quantity at which supply and demand curves intersect

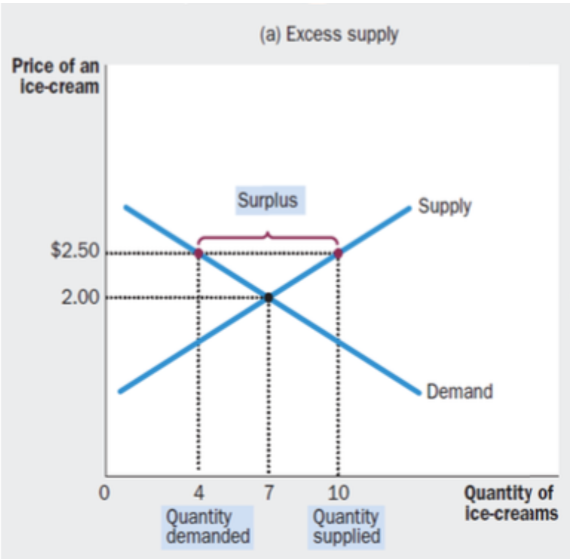


- If the market is not in equilibrium, in perfectly competitive markets the actions of buyers and sellers *naturally move the price* – and hence the market, towards equilibrium
- Surpluses and shortages exist → markets can be out of equilibrium
- Buyers and sellers are satisfied once equilibrium is reached (no upward or downward pressure on price)

## MARKETS NOT IN EQUILIBRIUM – SURPLUS

When the market price is **higher** than the equilibrium price, then there is a **surplus** (or excess supply)

- Quantity supplied is larger than quantity demanded
- Suppliers lower price to increase sales, therefore moving towards the equilibrium




## MARKETS NOT IN EQUILIBRIUM – SHORTAGE

When the market price is **lower** than the equilibrium price, then there is a **shortage** (or excess demand)

- Quantity supplied is smaller than quantity demanded
- Suppliers raise the price due to too many buyers chasing too few goods, therefore moving towards equilibrium