

## OUTLINE — September 6, 2017

- Economic Systems
- Model of Supply and Demand
  - Demand
  - Supply
  - Equilibrium

*Fill in the empty seats*

*Laptops closed; Cell phones silenced & put away*

*Announcements sent by e-mail*

*Extra handouts: in racks outside 532 Evans*

## Who decides: What, How, For Whom?

- Depends upon the “Economic System”
  - Command Economy
  - Laissez-Faire Economy
    - Commonly called free or open market system
    - “Consumer Sovereignty”
  - Mixed Economy

Economic Systems      Demand      Supply      Equilibrium

## Model of Demand & Supply

- Question
- Simplifications
- Assumptions

Economic Systems      **Demand**      Supply      Equilibrium

## Demand

- For a particular product, what quantity will buyers be willing and able to buy at each of many prices?

Economic Systems      **Demand**      Supply      Equilibrium

## Need more information

- Define market precisely
- Make assumptions explicit
  - When I ask about response to change in price, assume only price is changing
- "*Ceteris Paribus*" = "holding all else constant"

Economic Systems      Demand      Supply      Equilibrium

## Demand for new jeans



Economic Systems      Demand      Supply      Equilibrium

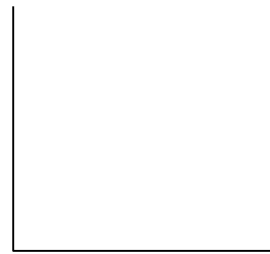
## $p$ and $q_D$ are Inversely Related

- Terminology
  - Individual Demand
  - Market Demand
- "Law of Demand"
- More Terminology – *very important!*
  - Demand
  - Quantity Demanded

Economic Systems      Demand      Supply      Equilibrium

## Change in Income: Normal Good

- ↑ Buyer Income



Economic Systems      Demand      Supply      Equilibrium

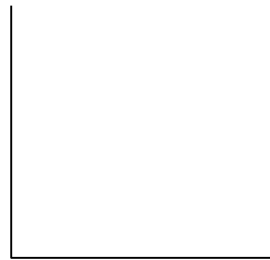
## What shifts Demand?

- $\Delta$  price  $\Rightarrow$  *MOVE ALONG* curve
- $\Delta$  anything else  $\Rightarrow$  *SHIFT OF* curve
- What shifts demand? Recall our assumptions!
  - If any of these 5 things change, demand shifts
  - 1.
  - 2.
  - 3.
  - 4.
  - 5.

Economic Systems **Demand** Supply Equilibrium

## Change in Income: Inferior Good

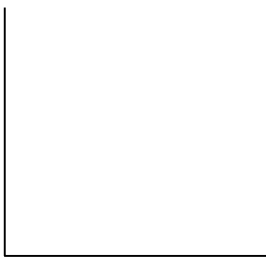
- $\uparrow$  Buyer Income



Economic Systems **Demand** Supply Equilibrium

## Change in Wealth: Normal Good

- $\uparrow$  Buyer Wealth



Economic Systems **Demand** Supply Equilibrium

## Change in "Other Prices"

- Complements in Demand:
  - $\downarrow$  P of complement



Economic Systems **Demand** Supply Equilibrium

## Change in "Other Prices"

- Substitutes in Demand:  
 ↑ P of substitute



Economic Systems    Demand    Supply    Equilibrium

## Change in Preferences

- Preference shifts away from good:



Economic Systems    Demand    Supply    Equilibrium

## Supply

- For a particular product, what quantity will be offered for sale at each of many prices?
- Individual firm supply
- Market supply

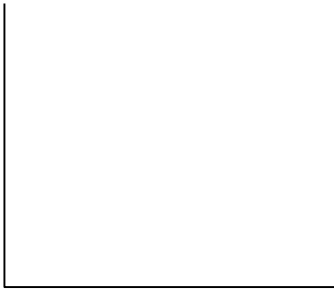
Economic Systems    Demand    Supply    Equilibrium

## Again, need more information

- Define market precisely
  - product characteristics
  - time period
- Make assumptions explicit
  - When I ask about response to change in price, assume
- "*Ceteris Paribus*" = "holding all else constant"

Economic Systems    Demand    Supply    Equilibrium

## Supply Curve



Economic Systems Demand **Supply** Equilibrium

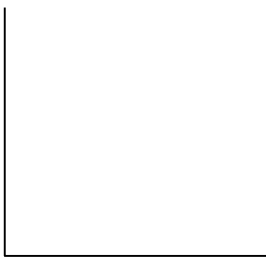
## $p$ and $q_S$ are Directly Related

- Terminology important!
  - ✓ Supply
  - ✓ Quantity Supplied

Economic Systems Demand **Supply** Equilibrium

## Change in Input Costs

- ↑ cost of input



Economic Systems Demand **Supply** Equilibrium

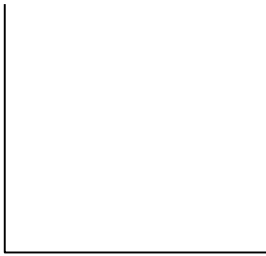
## What Shifts Supply?

- $\Delta p \Rightarrow$  *MOVE ALONG* curve
- $\Delta$  anything else  $\Rightarrow$  *SHIFT OF* curve
- What shifts Supply? Recall our assumptions!
- If any of these things change, supply shifts
  - input costs
  - technology
  - prices of related products
  - # of sellers

Economic Systems Demand **Supply** Equilibrium

## Change in Technology

- better technology



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## Change in price of “related products”

- Substitutes in production (either – or)



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## Change in price of “related products”

- Complements in production (by-products)

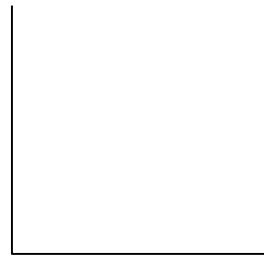


- ↑ price of complement output

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## Change in # of Sellers

- ↑ # of sellers



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