Economics

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What is demand?

The relationship between the various possible prices of a product and the quantities of that product consumers are willing to purchase.

quantity demanded: the amount of a product consumers are willing to purchase at each price.

In this relationship price is the independent variable & quantity demanded is the dependent variable.

To isolate the relationship between these two variables, all other factors affecting price & quantity demanded are assumed to remain constant.

Demand factors: that can cause an increase or a decrease in a product's demand. Demand depends on several factors. These factors can cause the entire market demand curve to shift

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The law of demand:

States that there is an inverse relationship between a product's quantity demanded and it's price, when all other factors are kept constant. is known as the law of demand

Demand schedule: a table that shows possible combinations of prices & quantities demanded of a product.

Price ($ per kg)	Quantity Demanded (D) (kg per month)
$2.5	1
2.0	2
1.5	3

Table: Demand schedule for strawberries

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"The demand schedule shows that as the price of strawberries falls, all are willing to purchase more strawberries."

As shown in the table, might buy 2kg per month when each kg is priced at $2

If the price rises to $2.50, will likely purchase fewer strawberries. Conversely, if the price falls to $1.50, will probably buy more strawberries per month.

Demand Curve: A graph that expresses possible combination of prices and quantities demanded of a product.

The demand curve's negative (downward) slope reflects the law of demand. ~~When~~ An increase in the product's price decreases the quantity

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demanded. & vice versa.

The independent variable (price) is on the vertical axis, while the dependent variable (quantity demanded) is on the horizontal axis.

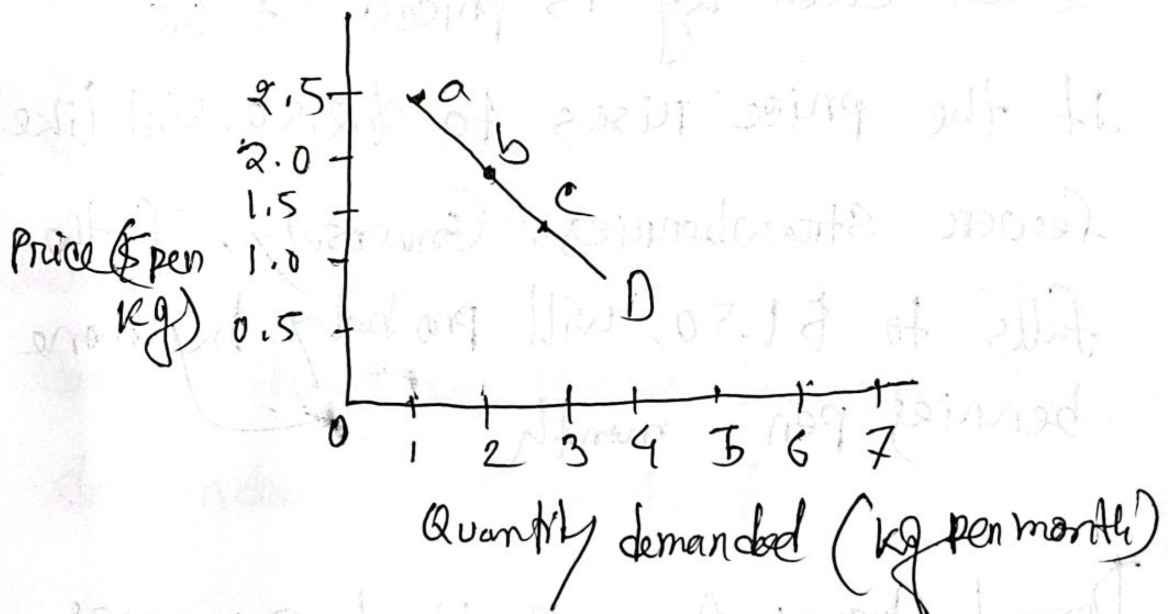

Fig: D. Curve for Strawberries.

Change in quantity demanded: The effect of a price change on quantity demanded

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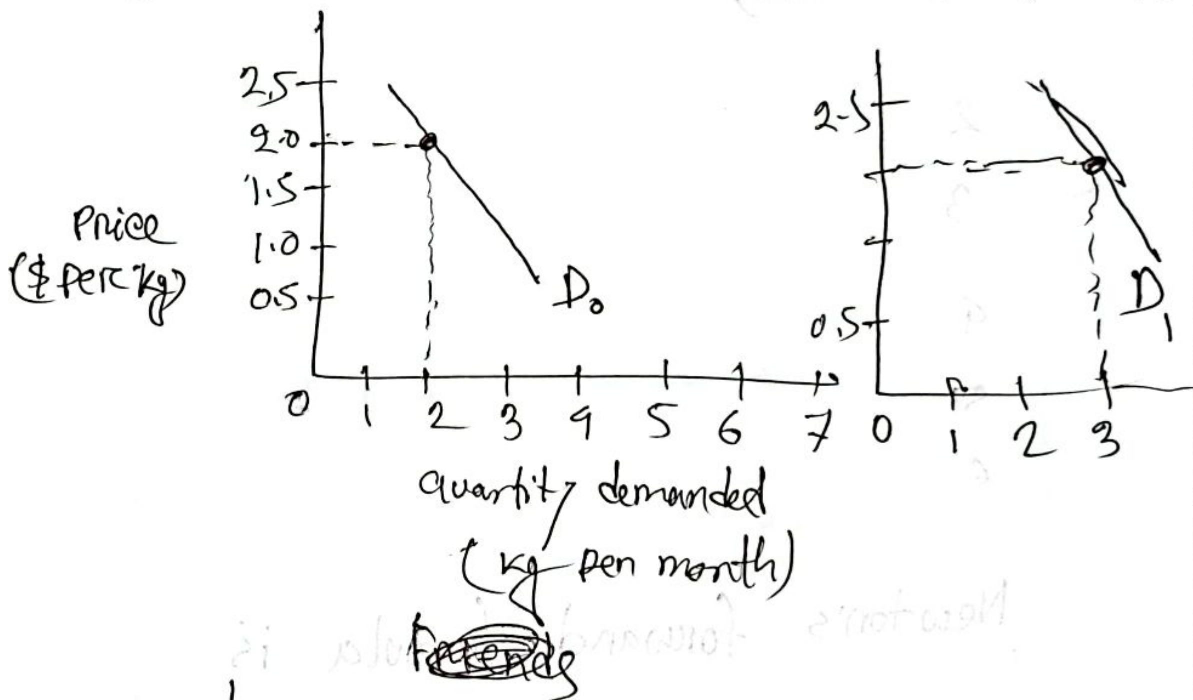
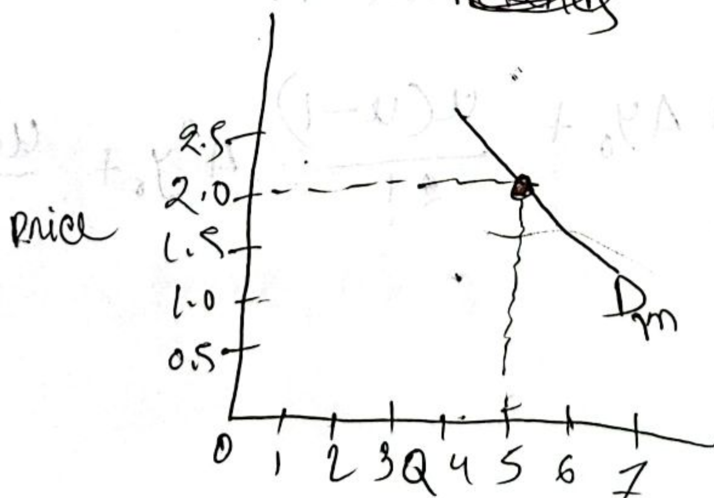
Market Demand: the sum of all consumer's quantity demanded for a product at each price.

My Demand curve for strawberries, Friend's



Friends



Market Demanded curve for strawberries

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Individual & Market Demand Schedules for strawberries.

Price ($ Per kg)	My Q.D	Friend's Q.D	Q.D in Market
2.5	1	2	3
2.0	2	3	5
1.5	3	4	7

There are two consumers in the strawberry market, me & my frn, with demand curve (D_m) & D_1. The Market demand curve (D_m) is found by adding the number of kg purchased by both consumers at each possible price.

* Five main demand factors are the Num of buyers in a market, their avg income, the prices of other products, consumer preferences, & consumer expectations about future prices & incomes.

Demand factor: factors that can cause an increase

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or a decrease in a product's demand.

Increase in demand: an increase in the quantity demanded of a product at all prices

Decrease in demand: a decrease in the quantity demanded of a product at all prices

Market demand schedule

price	Q.D
2.5	5 ← 7 → 9
2	7 ← 9 → 11
1.5	9 ← 11 → 13

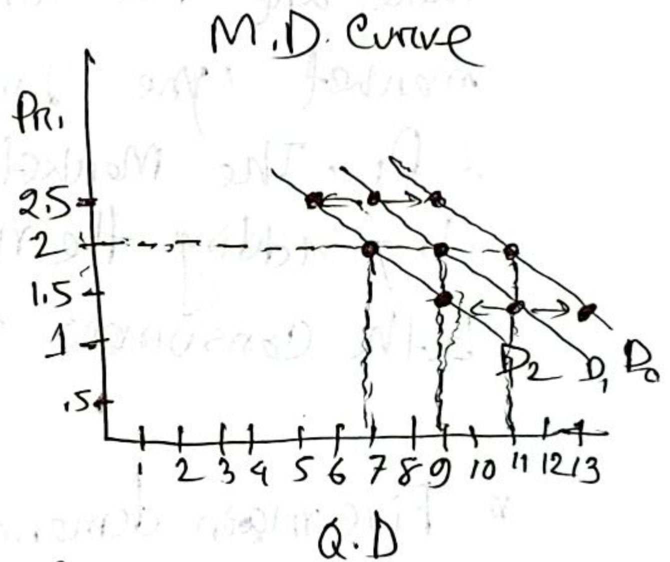

Fig: Change in Demand

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i. Number of Buyers: An increase in the number of buyers lead to higher demand, while a decrease reduces demand.

e.i: A growing population increases demand for housing.

Increase/Decrease in demand: Fig change in Demand

ii. Income: A rise of in income increases demand for normal goods and decreases demand for inferior goods.

e.g: Higher salaries increases demand for luxury cars but reduce demand for second hand clothes.

normal product: Products whose demand changes directly with income

Inferior products: products whose demand changes inversely with income

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The demand for a product changes depending on whether related products are:

iii. Prices of Other product:

Substitute product: products that can be consumed in place of one another. If the price of one good increases, demand for its substitute rises. Ex: If coffee price rise, demand for tea may increase

Complementary product: products that are consumed together. If the price of a complementary good increases, demand for the related product decreases.

Ex: If gasoline price rise, demand for car may fall.

iv. Consumer preference - Changes in tastes or trends can increase or decrease demand.

Ex: A new health trend can increase demand for organic food while reducing demand for fast food.

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Consumer preferences are also influenced by fashion or advertising, cultural, individual preference

v. Consumer expectations: If consumers expect prices to rise in the future, they may buy more now, increasing demand. If they expect prices to drop, they may delay purchases, reducing demand.

Ex: If people expect smartphones to be cheaper next month, they may delay purchases, reducing current demand.

* Population size (market size

Each of these factors shifts the demand curve to the right (increase in demand) or to the left (decrease in demand)

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Types of Demand:

Individual - Demand of a single consumer for a product

Market - Total demand from all consumers in the market

Derived - Demand for a product that arises from the demand for another food (demand for steel increases if car production rises).

Elastic, Inelastic, Joint, Composite (milk)

(Small change in price) (demand changes very little) (Cars & fuel)

Change in Quantity Demanded vs Change in Demand

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Supply: The relationship between the various possible prices of a product and the quantities of the product that businesses are willing to supply.

quantity supplied: The amount of a product businesses are willing to supply at each price.

Market supply: The sum of all producers' quantities supplied at each price

Law of supply: states that there is a direct relationship between a product's quantity supplied and its price.

Supply schedule: a table that shows possible combinations of prices & quantities supplied of a product.

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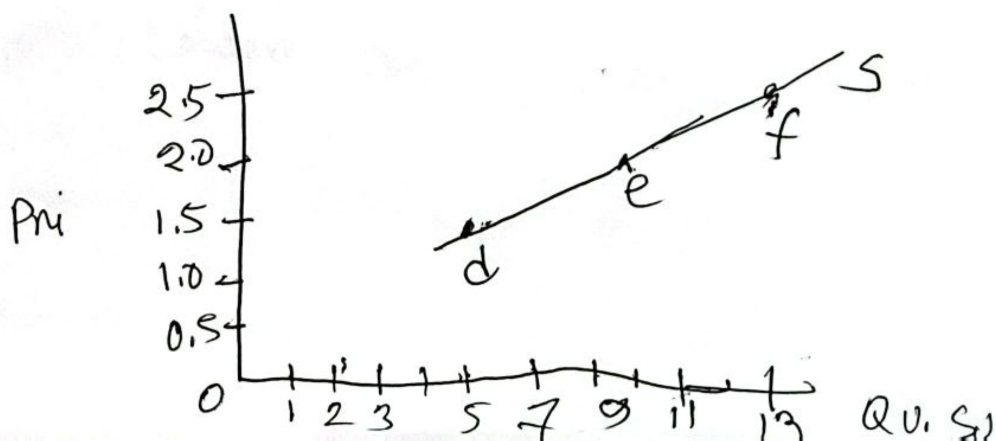
Supply curve: a graph that expresses possible combinations of prices and quantities supplied of a product.

Change in quantity supplied: The effect of a price change on quantity supplied.

Market supply Schedule for strawberries

price (\$ per kg)	Quantity supplied (millions)	point on graph
2.5	13	f
2.0	9	e
1.5	5	d



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Supply factors: factors that can cause an increase or a decrease in a product's supply.

The six main supply factors are the number of producers, resource prices, the stat of technology, changes in nature, the prices of related products & producer expectations.

i. Number of producers: More producers in the market generally increase supply, while fewer producers decrease supply.

ii. Resource Prices (Input Costs): If the cost of raw materials, labor, or other inputs rises, production becomes more expensive, reducing supply. Lower costs increase supply.

iii. State of Technology: Advances in technology ~~reduce supply~~ improve efficiency, lowering

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production costs & increasing supply. Outdated or inefficient technology reduces supply.

iv. Changes in nature (Natural Events & Climate Conditions): Natural disasters, droughts, or favorable weather conditions can significantly affect supply, especially in agriculture and industries dependent on natural resources.

v. Prices of Related Production: If a producer can switch between products (e.g: a farmer choosing between wheat and corn), an increase in the price of one product may lead to a shift in supply toward that product, reducing supply for the other.

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vi. Producer Expectations: If producers expect higher future prices, they may reduce current supply to sell later at a higher price. If they expect lower future prices, they may increase current supply to sell before prices drop.

Market equilibrium: is the point where the quantity demanded by consumers equals the quantity supplied by producers. It is the state point at which demand and supply curves intersect. At this point, the market price is stable because there is no shortage or surplus.

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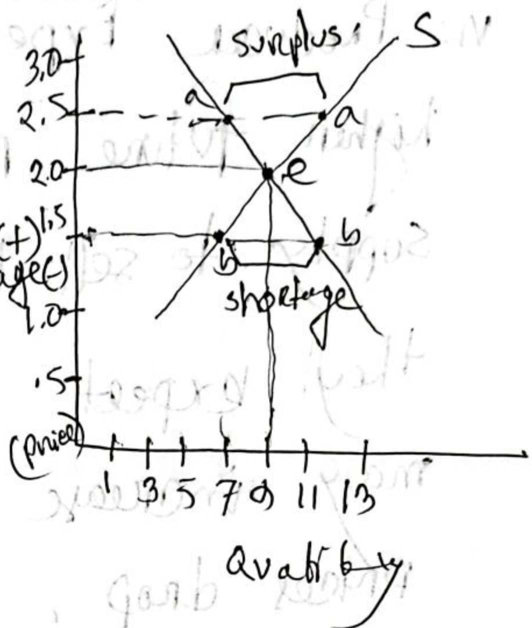
Market demand & supply schedule

Price	Quantities (D)	(S)	Surplus(+) shortage(-)
3.0	5	13	+8
2.5	7	11	+4
2.0	9	9	—
1.5	11	7	-4
1.0	13	5	-8



How it's works!

- If price is too high (surplus situation)
  - Quantity supplied > Quantity demanded → Excess supply (surplus)
  - Producers lower prices to attract buyers.
  - The market moves towards equilibrium

If price is too Low (Shortage situation)
- Quantity demanded > Quantity supplied → Excess demand (shortage)
- Consumers compete for the limited supply, pushing prices up.

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The market moves towards equilibrium.

* If there is a surplus, prices fall until equilibrium is restored.
* If there is a shortage, price rise until equilibrium is restored.

Surplus: A surplus occurs when the quantity supplied is greater than quantity demanded at a given price. (An excess of quantity supplied over quantity demanded). This means producers have more goods than consumers are willing to buy.

Causes of surplus:

i. Price is too high
ii. Increase in supply
iii. Decrease in Demand
iv. Govt. Interventions.

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Effects of surplus:

- unsold goods accomulate, leading to storage issues.
- Businesses lower prices, to sell excess stock.
- Producers cut production to avoid losses
- Market price drop, until equilibrium is restored.

Shortage: A shortage occurs when the quantity of demanded is greater than the quantity supplied at a given price. This means ~~it~~ consumers want to buy more than what producers are willing to sell.

Causes: i. Price is set too low
ii. Decrease in supply iii. Increase in Demand iv. Govt. Intervention.

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Effects of shortage:

- Consumers compete for limited goods, leading to long queues or rationing.
- Prices rise naturally as people are willing to pay more.
- Black markets may emerge, where goods are sold at higher prices.
- Producers may increase supply to meet demand and maximize profits.

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