Markets

A market is a group of buyers and sellers with the potential to trade.
Markets

- Defining the Good or Service
- Buyers and Sellers
- Geography of the Market

Markets

Aggregation

The process of combining distinct things into a single whole.
Competition in Markets

In *imperfectly competitive markets*, individual buyers or sellers have some influence over the price of the product.

Competition in Markets

In *perfectly competitive markets* (or just *competitive markets*), each buyer and seller takes the market price as a given.

(i.e. no one person, buyer or seller, has the ability to influence the price)
Supply, Demand, and Market Definition

The supply and demand model is designed to explain how prices are determined in perfectly competitive markets.

Demand

- The Law of Demand
- The Demand Schedule and the Demand Curve
- Changes in Quantity Demanded
- Changes in Demand
Demand

An individual’s quantity demanded of any good is the total amount that individual would choose to buy at a particular price.

Demand

The market quantity demanded of any good is the total amount that all buyers in the market would decide to buy at a particular price.
Law of Demand

The *law of demand* states that when the price of a good rises and everything else remains the same, the quantity of the good demanded will fall.

The Demand Schedule

*Demand Schedule*: a list showing quantities of a good that consumers would choose to purchase at different prices, with all other variables held constant.

<table>
<thead>
<tr>
<th>Price (per Bottle)</th>
<th>Quantity Demanded (Bottles per Month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.00</td>
<td>7,500</td>
</tr>
<tr>
<td>2.00</td>
<td>6,500</td>
</tr>
<tr>
<td>3.00</td>
<td>5,000</td>
</tr>
<tr>
<td>4.00</td>
<td>4,000</td>
</tr>
<tr>
<td>5.00</td>
<td>3,500</td>
</tr>
</tbody>
</table>
The Demand Curve

*Demand Curve:* shows the relationship between the price of a good and the quantity demanded, holding constant all other variables that affect demand. *Each point on the curve shows the total quantity buyers would choose to buy at a specific price.*

<table>
<thead>
<tr>
<th>Price per Bottle</th>
<th>Number of Bottles</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4.00</td>
<td>4,000</td>
</tr>
<tr>
<td>$2.00</td>
<td>6,000</td>
</tr>
</tbody>
</table>

When the price is $4.00 per bottle, 4,000 bottles are demanded (point A).

At $2.00 per bottle, 6,000 bottles are demanded (point B).
Changes in Quantity Demanded

*Change in quantity demanded:* change in a good’s price that causes a move along the demand curve

- A rise in price causes a leftward movement along the demand curve - a decrease in quantity demanded.
- A fall in price causes a rightward movement along the demand curve - an increase in quantity demanded.

Changes in Demand

*Change in demand:* change in any determinant of demand - except for the good’s price - that causes the demand curve to shift

- Buyers purchase more at any price: demand curve shifts rightward - increase in demand
- Buyers purchase less at any price: demand curve shifts leftward - decrease in demand
Demand vs. Quantity Demanded

\[ \text{Change in Quantity Demanded} = \text{movement along the demand curve} \]

\[ \text{Change in Demand} = \text{movement of the entire demand curve} \]

Demand

The demand for most goods (normal goods) is positively related to income or wealth. A rise in either income or wealth will increase demand for these goods, and shift the demand curve to the right.
Normal and Inferior Goods

Normal goods: goods that people demand as their income rises

Inferior goods: goods that people demand less of as their income rises

Changes in Demand

<table>
<thead>
<tr>
<th>Price per Bottle</th>
<th>Original Quantity Demanded (Bottles per Month)</th>
<th>New Quantity Demanded After Increases in Income (Bottles per Month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.00</td>
<td>7,500</td>
<td>9,500</td>
</tr>
<tr>
<td>2.00</td>
<td>5,000</td>
<td>8,000</td>
</tr>
<tr>
<td>3.00</td>
<td>5,000</td>
<td>7,000</td>
</tr>
<tr>
<td>4.00</td>
<td>4,000</td>
<td>6,000</td>
</tr>
<tr>
<td>5.00</td>
<td>3,500</td>
<td>5,500</td>
</tr>
</tbody>
</table>
A substitute is a good that can be used in place of some other good and that fulfills more or less the same purpose. When the price of a substitute rises, the demand for a good will increase, shifting the demand curve to the right.

A complement is a good that is used together with some other good. A rise in the price of a complement decreases the demand for a good, shifting the demand curve to the left.

- Gasoline and cars are complements, if the price of gas goes up the demand for cars will go down.
Changes in Demand and Quantity Demanded

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity</th>
<th>Price</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>P1</td>
<td>Q1</td>
<td>P2</td>
<td>Q2</td>
</tr>
</tbody>
</table>

Price increase moves us leftward along demand curve.
Price decrease moves us rightward along demand curve.

Entire demand curve shifts leftward when:
- income
- wealth
- price of substitute
- price of complement
- expected price
- tastes shift away from good

Entire demand curve shifts rightward when:
- income
- wealth
- price of substitute
- price of complement
- expected price
- tastes shift toward good

Graphical Analysis

- What effect will widely publicizing the Atkins’ diet have on the market for beef?
- How will a decrease in the price of meat affect consumer behavior?
- It has just been determined that
"Nothing more excellent or valuable than wine was ever granted by the Gods to man." Plato

Scientists at the University of California, Davis, have identified another group of chemicals in red wine that is linked to the ability to lower cholesterol. They are called saponins.


How will this affect the consumer behavior in the red wine market?