Demand

Demand and Quantity Demanded
- The quantity demanded is the number of units that consumers want to buy over a specified period of time
- The quantity demanded of any good depends on many factors, one of which is price.
- Normally, when the price of a commodity rises, the quantity demanded falls.
## DEPARTMENT SCHEDULE FOR MILK

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity Demanded</th>
<th>Label in Figure 4-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00</td>
<td>45</td>
<td>A</td>
</tr>
<tr>
<td>0.90</td>
<td>50</td>
<td>B</td>
</tr>
<tr>
<td>0.80</td>
<td>55</td>
<td>C</td>
</tr>
<tr>
<td>0.70</td>
<td>60</td>
<td>E</td>
</tr>
<tr>
<td>0.60</td>
<td>65</td>
<td>F</td>
</tr>
<tr>
<td>0.50</td>
<td>70</td>
<td>G</td>
</tr>
<tr>
<td>0.40</td>
<td>75</td>
<td>H</td>
</tr>
</tbody>
</table>
Demand Curve

![Graph showing the relationship between price and quantity demanded.](image)
Supply and Quantity Supplied

The quantity supplied is the number of units that sellers want to sell over a specified period of time.

The quantity supplied of any good depends on many factors, one of which is price.

Normally, when the price of a commodity rises, the quantity supplied rises.
### SUPPLY SCHEDULE FOR MILK

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity Demanded</th>
<th>Label in Figure 4-2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00</td>
<td>90</td>
<td>A</td>
</tr>
<tr>
<td>0.90</td>
<td>80</td>
<td>B</td>
</tr>
<tr>
<td>0.80</td>
<td>70</td>
<td>C</td>
</tr>
<tr>
<td>0.70</td>
<td>60</td>
<td>E</td>
</tr>
<tr>
<td>0.60</td>
<td>50</td>
<td>F</td>
</tr>
<tr>
<td>0.50</td>
<td>40</td>
<td>G</td>
</tr>
<tr>
<td>0.40</td>
<td>30</td>
<td>H</td>
</tr>
</tbody>
</table>
Supply Curve
Equilibrium of Supply and Demand

There is normally a single equilibrium price for each commodity at which supply equals demand.

If the price is not at this equilibrium, a surplus or shortage will ensue.
# Equilibrium

## EQUILIBRIUM PRICE AND QUANTITY OF MILK

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity Demanded</th>
<th>Quantity Demanded</th>
<th>Surplus or Shortage</th>
<th>Price will</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00</td>
<td>45</td>
<td>90</td>
<td><strong>Surplus</strong></td>
<td>Fall</td>
</tr>
<tr>
<td>0.90</td>
<td>50</td>
<td>80</td>
<td><strong>Surplus</strong></td>
<td>Fall</td>
</tr>
<tr>
<td>0.80</td>
<td>55</td>
<td>70</td>
<td><strong>Surplus</strong></td>
<td>Fall</td>
</tr>
<tr>
<td>0.70</td>
<td>60</td>
<td>60</td>
<td><strong>Neither</strong></td>
<td>Same</td>
</tr>
<tr>
<td>0.60</td>
<td>65</td>
<td>50</td>
<td><strong>Shortage</strong></td>
<td>Rise</td>
</tr>
<tr>
<td>0.50</td>
<td>70</td>
<td>40</td>
<td><strong>Shortage</strong></td>
<td>Rise</td>
</tr>
<tr>
<td>0.40</td>
<td>75</td>
<td>30</td>
<td><strong>Shortage</strong></td>
<td>Rise</td>
</tr>
</tbody>
</table>
Supply and Demand
Shifts in Demand

Shifts of the Demand Curve

- A change in the price of a good produces a movement along the demand curve.
- A change in any other factor influencing demand shifts the entire demand curve.
Shifts in Demand
Shifts in Demand

Shifts of the Demand Curve

Changes in the following variables shift the demand curve:

- Consumer incomes
- Population
- Consumer preferences
- Price and availability of other goods
Shifts in Demand

[Graph showing demand and supply curves with a shift in demand from $D_0$ to $D'$]
Shifts in Demand
Shifts in Supply

Shifts of the Supply Curve

< A change in the price of a good produces a movement along the supply curve.

< A change in any other factor influencing supply shifts the entire supply curve.
Shifts in Supply
Shifts in Supply

Shifts of the Supply Curve
Changes in the following variables shift the supply curve:
- The size of the industry
- Technological progress
- Prices of inputs
- Prices of related outputs
Shifts in Supply
Shifts in Supply
Price Ceiling

- Restraining the Market Mechanism: Price Ceilings
- A price ceiling is a legal maximum on the price that may be charged for a commodity.
- Government-imposed price ceilings typically lead to the following:
  - Persistent shortages.
  - A black market in which prices are higher than the free-market price would have been.
Price Ceiling

Government-imposed price ceilings typically lead to the following:

- Illicit suppliers obtain a significant portion of the income.
- Investment in the industry is reduced.
- A group of people benefit from the price ceiling, and resist any attempt to remove it.
Price Ceiling

[Diagram showing supply (S) and demand (D) curves intersecting at point E. The horizontal line at 800 represents the market rent, and the line segment from 0 to 2.5 is labeled as the rent ceiling. Points C and B are marked on the diagram representing the number of dwellings rented.]
Price Floors

Government-imposed price floors typically lead to the following:

- Persistent surpluses.
- Disposal problems.
- Unwanted and inefficient discounts.
- Over-investment.
Price Floors and Ceilings

Other difficulties occur when price floors or ceilings are imposed.
- Favoritism and corruption
- Unenforceability and disrespect for the law
- Auxiliary restrictions
- Limitation of the volume of transactions
- Misallocation of resources