Relationship between Price & Quantity Supplied

Law of Supply	"the quantity supplied of a good rises when the price of the good rises.”

Supply Curve	a graph of the relationship between the price of a good (P) and the quantity supplied (S).
	- the supply curve is **upward** sloping.
	- shows the relationship between prices and quantities supplied.
	- prices and quantity supply are **directly proportional** (the price increases the quantity supplied also increases).

A movement along the demand curve is called **“a change in quantity supplied.”** A movement is caused in response to a change in **price of the good itself**.

A shift in the curve is called **“a change in supply.”** A shift on the demand curve could occur in response to:

1. Technology

Movement and Shift in the Demand Curve

A movement along the demand curve is called **“a change in quantity demanded.”**

**a movement is caused in response to a change in price of the good itself.*

A shift in the curve is called **“a change in demand.”** A shift on the demand curve could occur in response to:

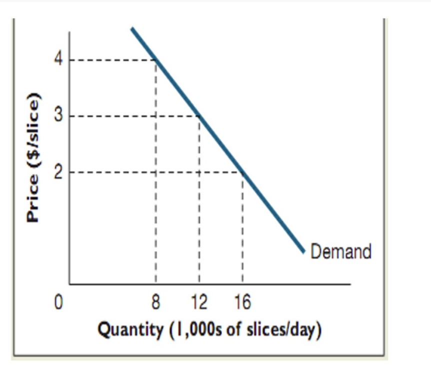
1. Change in Income	An **increase in income** would cause an **increase** in demand for **normal goods (rightward shift)** and a **decrease** in demand for **inferior goods (leftward shift)**.

2. Change in prices of complementary and substitute products.

3. Change in tastes and preferences.

4. Change in expectations

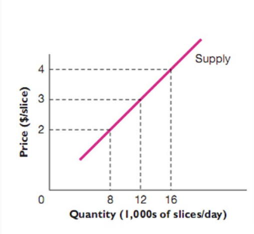
Demand Curve



Relationship between Price & Quantity Demanded

Law of Demand	"When the price of a good rises, the quantity demanded of the good falls, and when the price falls, the quantity demanded rises.”
Demand Curve	a graph of the relationship between the price of a good (P) and the quantity demanded (Q).

Supply Curve



Types of Goods

a. Normal Good	a good for which an increase in income leads to an increase in demand.
b. Inferior Good	a good for which an increase in income leads to a decrease in demand.
c. Substitute Goods	two goods for which an increase in the price of one leads to an increase in the demand for the other.
	- an **increase** in price of a **substitute products**, causes a **rightward** shift.
d. Complementary Goods	two goods for which an increase in the price of one leads to a decrease in the demand for the other.
	- an **increase** in price of **complementary** products, causes a **leftward** shift.

Market Demand Curve

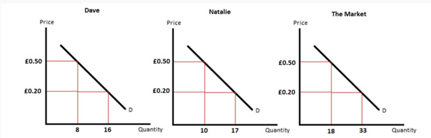
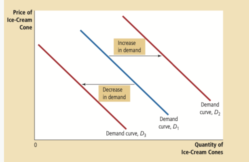


Figure 1b: Market Demand Curve

Shifts in Demand



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