Market Forces of Supply and Demand - E2 Cheat Sheet

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Demand Curve and Law

Law of Demand	“Other things equal, 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).

Movement 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 the price of the good itself**.

The Market Demand Curve

is derived by summing the quantities demanded at each price.

Market Demand Curve

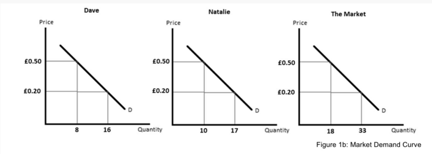


Figure 1b: Market Demand Curve

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 Good**	two goods for which an increase in the price of one leads to an increase in the demand for the other.

- An increase in the price of a substitute product, causes a rightward shift.

d. **Complement Good**	two goods for which an increase in the price of one leads to a decrease in the demand for the other.

- An increase in the price of complementary products, causes a leftward shift.

Relationship between Price & Quantity Demanded

- Prices and quantity demanded are inversely proportional.

- The curve is downward sloping as a result of the substitution and income effect.

- A price increase would reduce the quantity demanded because it reduces purchasing power.

Shift in the Demand Curve

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 products and substitute products.

3. Change in tastes and preferences.

4. Change in expectations.

Supply Curve and Law

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).

Relationship between Price & Quantity Supplied

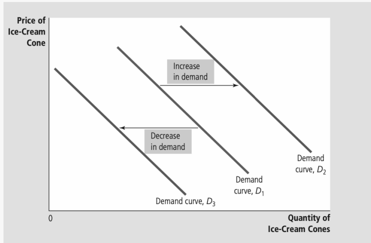
- The supply curve is **upward sloping**.

- Shows the relationship between prices and quantities supplied.

- Prices and quantity supply are **directly proportional** (the price increases the quantity supplied also increases).

Demand Curve

Shift in the Demand Curve Ref.



Supply Curve Ref.

Movement in the Supply Curve

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.**

Shift in the Supply Curve

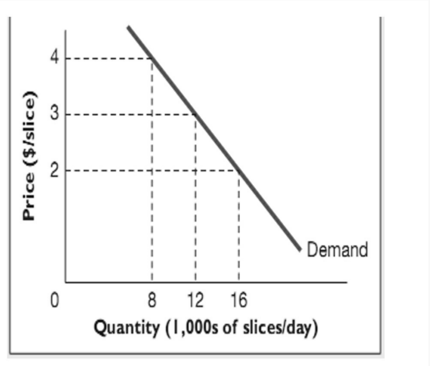
A shift in the curve is called **“a change in supply.”** A shift on the demand curve could occur in response to:

1. Technology

2. Input Prices (Materials, Labour, and Overhead).

3. Government Regulations

4. Mother Nature


Price ($/slice)
4
3
2
0
8
12
16
Demand
Quantity (1,000s of slices/day)