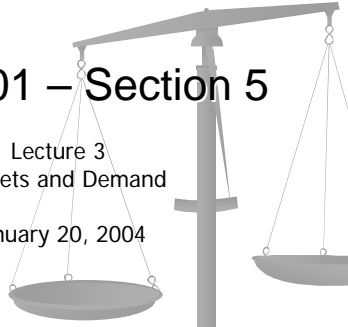


Econ 101 – Section 5

Lecture 3
Markets and Demand

January 20, 2004



Markets

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



Markets

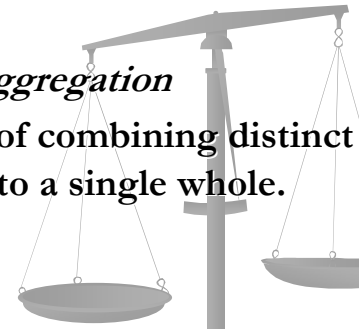
- Defining the Good or Service
 - Buyers and Sellers
- Geography of the Market



Markets

Aggregation

The process of combining distinct things into a single whole.



Competition in Markets

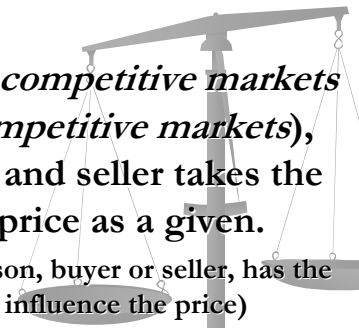
In *imperfectly competitive markets*, individual buyers or sellers have some influence over the price of the product.



Competition in Markets

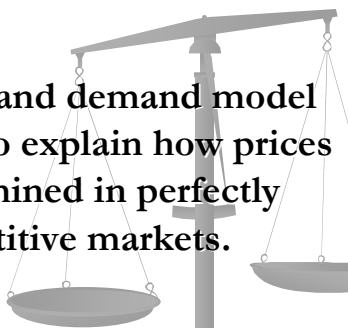
In *perfectly competitive markets* (or just *competitive markets*), each buyer and seller takes the market price as a given.

(i.e. no one person, buyer or seller, has the ability to influence the price)



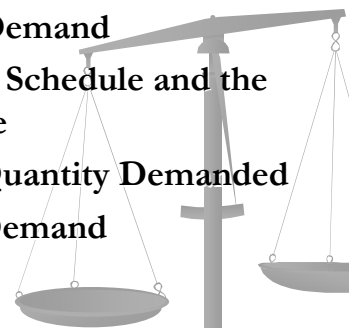
Supply, Demand, and Market Definition

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



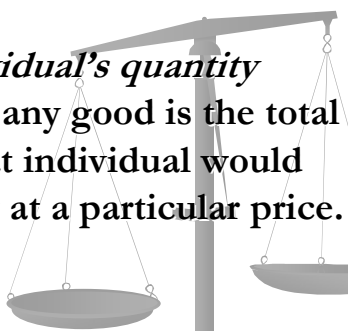
Demand

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



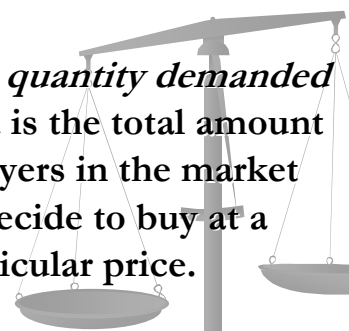
Demand

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



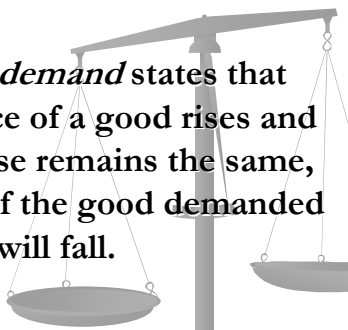
Demand

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

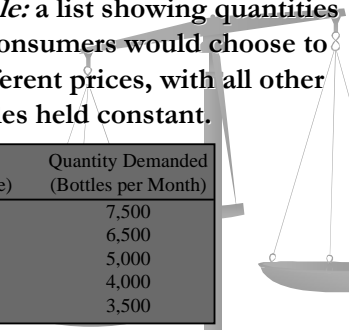
The *law of demand* states that when the price of a good rises and everything else remains the same, the quantity of the good demanded will fall.



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.

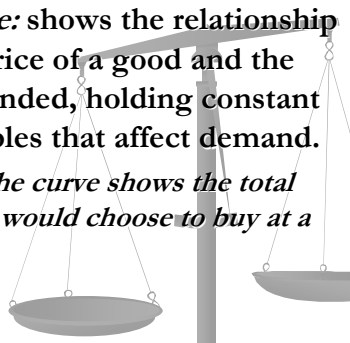
| Price (per Bottle) | Quantity Demanded (Bottles per Month) |
|--------------------|---------------------------------------|
| \$1.00 | 7,500 |
| 2.00 | 6,500 |
| 3.00 | 5,000 |
| 4.00 | 4,000 |
| 5.00 | 3,500 |



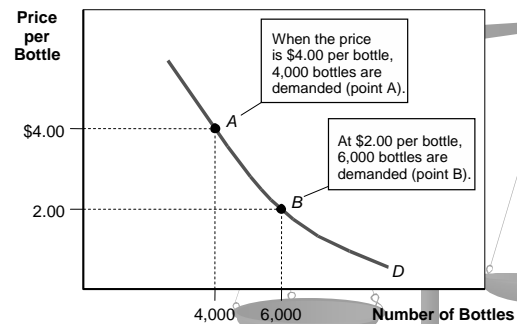
The Demand Curve

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.



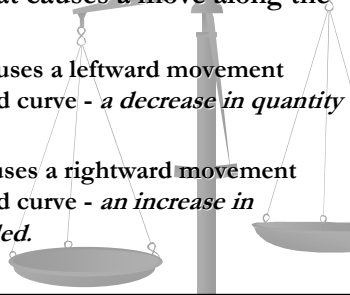
The Demand Curve



Changes in Quantity Demanded

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

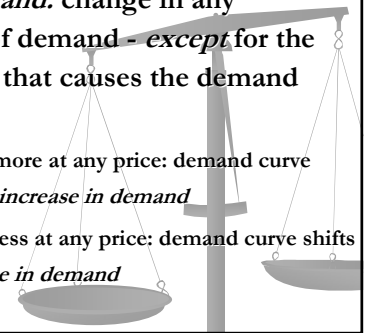
- A rise in price causes a leftward movement along the demand curve - *a decrease in quantity demanded.*
- A fall in price causes a rightward movement along the demand curve - *an increase in quantity demanded.*



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

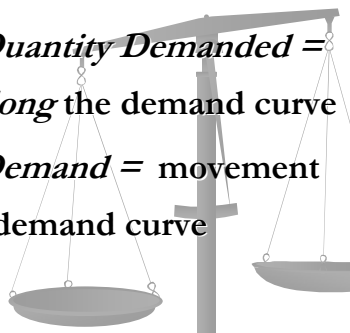
- Buyers purchase more at any price: demand curve shifts rightward - *increase in demand*
- Buyers purchase less at any price: demand curve shifts leftward - *decrease in demand*



Demand vs. Quantity Demanded

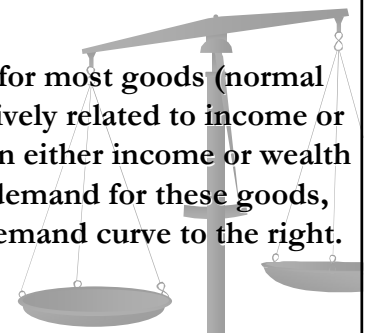
Change in Quantity Demanded = movement *along* the demand curve

Change in Demand = 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

- Kraft Dinner?

Changes in Demand

An increase in income causes the demand for maple syrup to shift from D_1 to D_2 . At each price, more bottles are demanded after the shift.

| Price (per Bottle) | Original Quantity Demanded (Bottles per Month) | New Quantity Demanded After Increase in Income (Bottles per Month) |
|--------------------|--|--|
| \$1.00 | 7,500 | 9,500 |
| 2.00 | 5,000 | 8,000 |
| 3.00 | 5,000 | 7,000 |
| 4.00 | 4,000 | 6,000 |
| 5.00 | 3,500 | 5,500 |

Demand

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.

Demand

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

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?

Graphical Analysis

- "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
 - ScienceDaily. (2003, September 9.) *New cholesterol fighter found in red wine*. Retrieved September 20, 2003, from www.sciencedaily.com/releases/2003/09/030909070840.htm.
- How will this affect the consumer behavior in the red wine market?