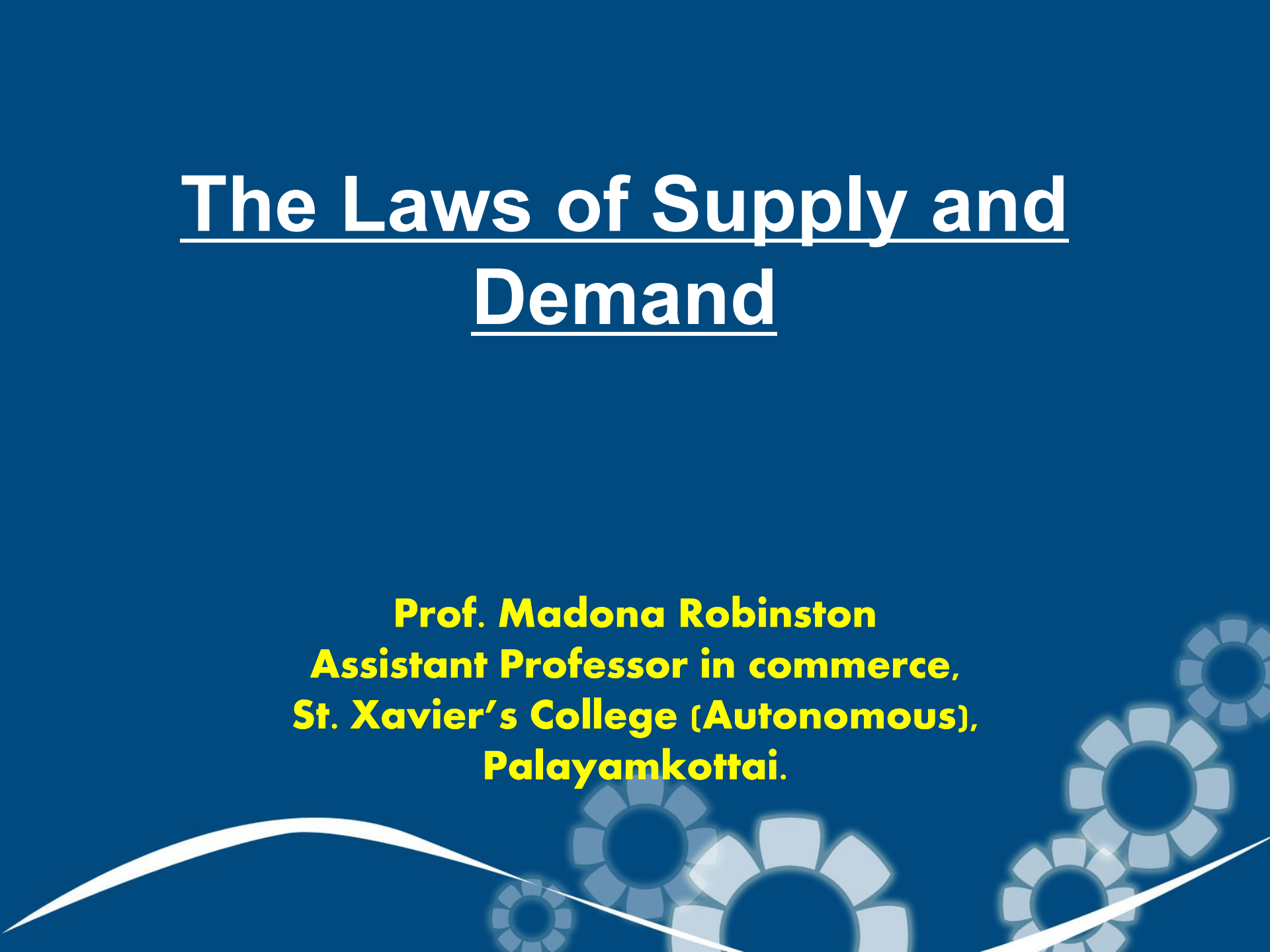


# The Laws of Supply and Demand

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**St. Xavier's College (Autonomous),**  
**Palayamkottai.**



# What is “supply and demand”?

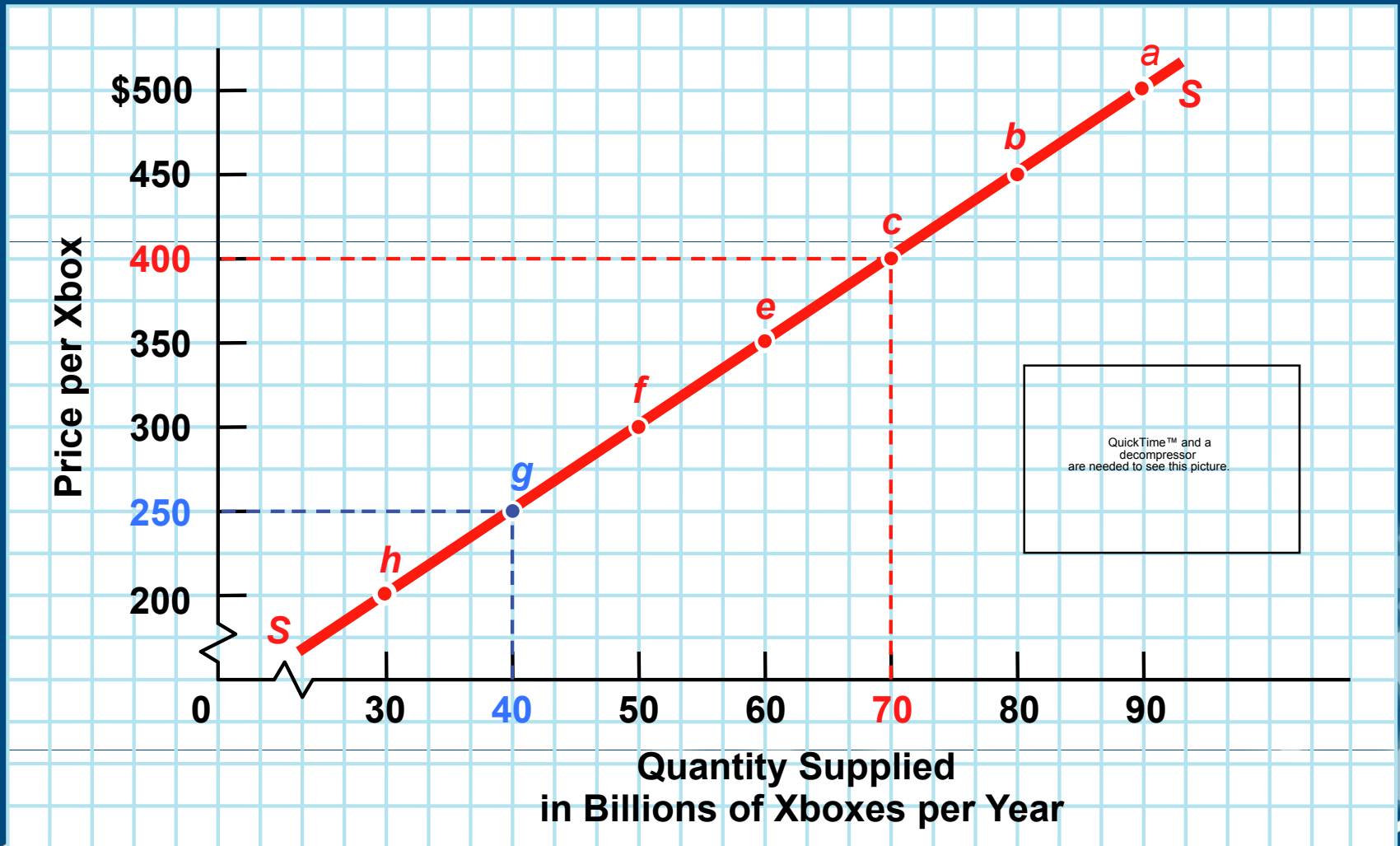
- Supply and demand is how economists track the dividing of resources & their value within a society
- Two (2) goals:
  - How much of a product do we have?
  - Is the demand for that product strong?



# What is the “law of supply”?

- *The Law of Supply asks: “How much of a good or service is a company willing to produce at a \_\_\_\_\_ price?”*
  - Hypothesis?
- *Answer:*
  - *If nothing changes, a company will produce a greater quantity of products when the price for that good is high. (WHY?)*

# Supply Curve for Xbox 360



# What are the factors that determine “supply”?



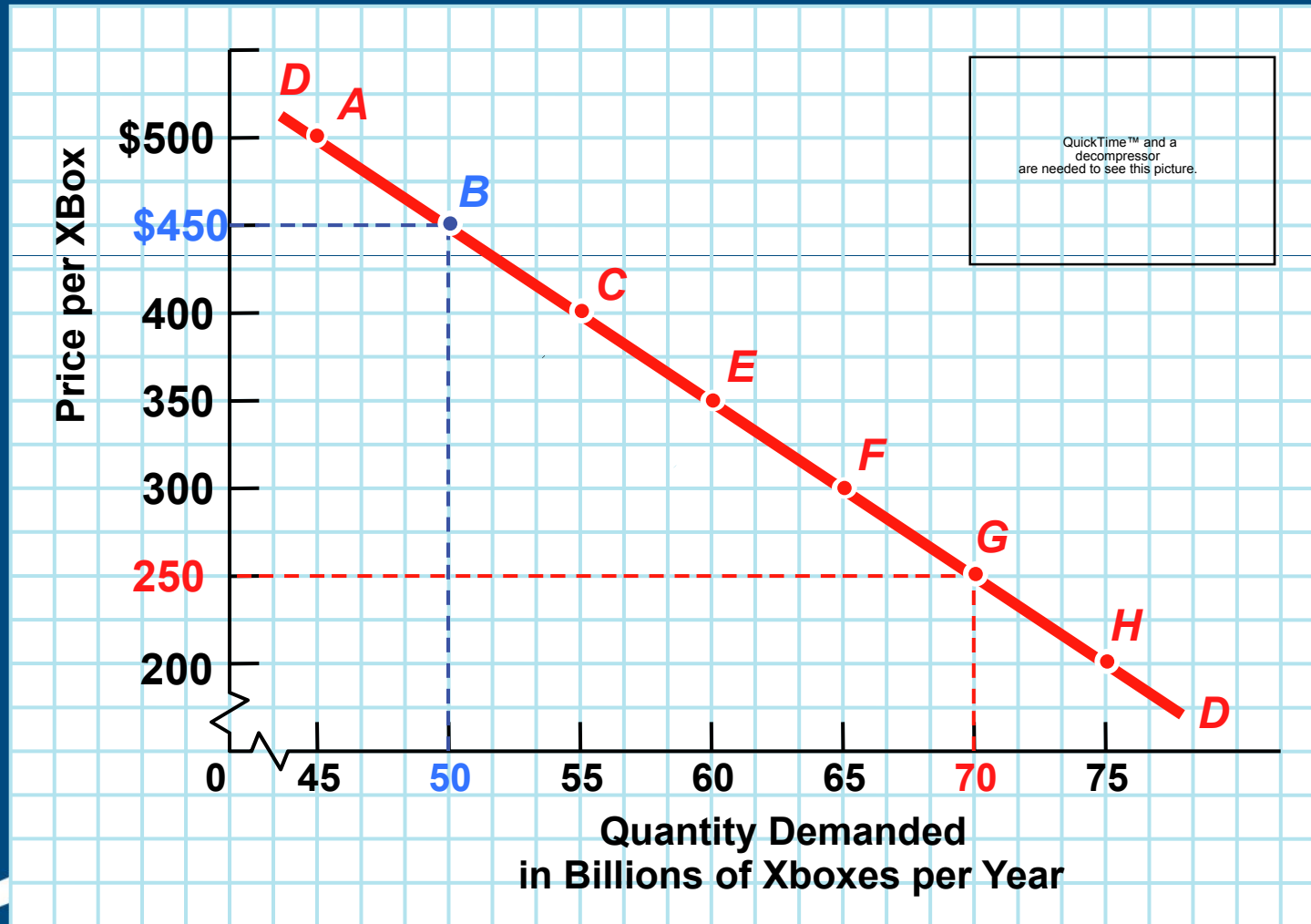
## • “P.I.G. T.O.E.S”

- **P** roductivity (workers, machines, and/or assembly)
- **I** nputs (Change in the price of materials needed to make the good)
- **G** overnment Actions (Subsidies, Taxes, and Regulations)
- **T** echnology (Improvements in machines and production)
- **O** utputs (Price changes in other products)
- **E** xpectations (outlook of the future)
- **S** ize of Industry (Number of companies in the industry)

# What is the “law of demand”?

- *The Law of Demand asks: “What is the willingness of consumers to buy a product at \_\_\_\_\_ price?”*
  - Hypothesis?
- Answer:
  - If nothing else changes, the demand of a good is greatest for consumers when the price is low.  
**(WHY?)**

# Demand Curve for Xbox 360



# What are the factors that determine “demand”?



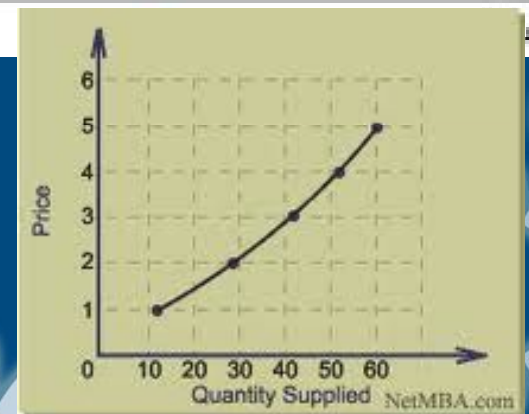
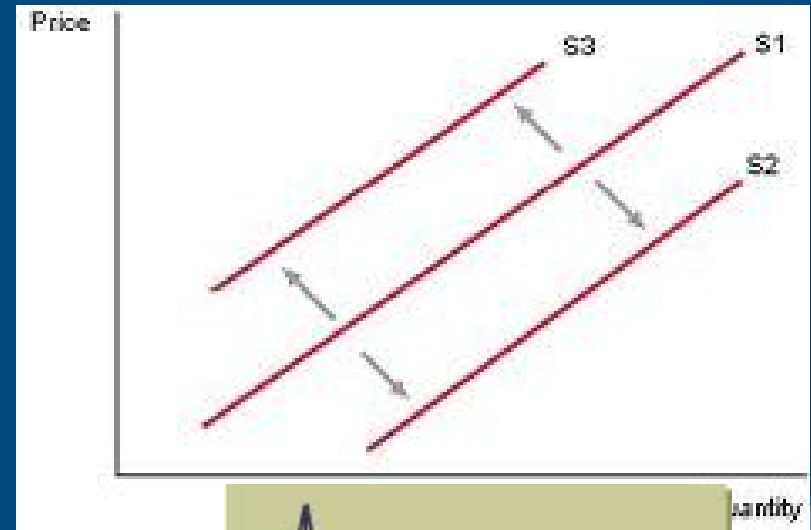
- “P.O.I.N.T.”

- **P**rice of other goods (substitute or complementary)
- **O**utlook (consumer expectation of the future)
- **I**ncome (normal goods versus inferior goods)
- **N**umber of potential customers (pop.of market)
- **T**aste (fads or trends)



# How does a supply curves move?

- A supply curve shifts whenever a factor that affects the supply of the good (other than price) changes
  - **RIGHT**: Increase in supply (at all prices)
  - **LEFT**: Decrease in supply (at all prices)



# What factors cause a shift in a supply curve?



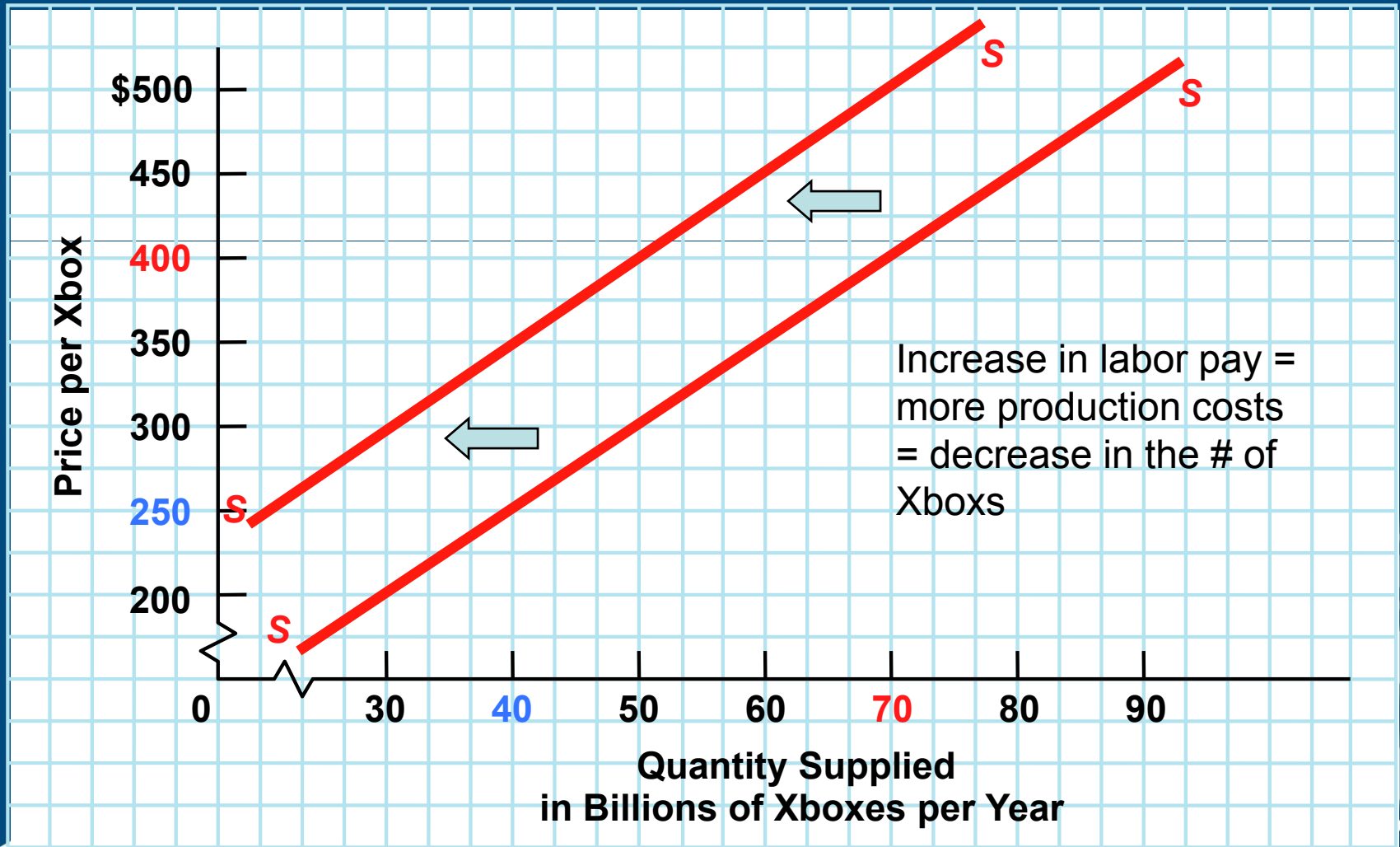
- Two (2) reasons:
  - A change in cost of production
    - Increase = LEFT
    - Decrease = RIGHT
  - The role of technology in production
    - Increase = RIGHT
    - Decrease = LEFT



# Scenario #1

- Our Xbox factory finds out that our workers are getting a 25% pay raise (increase in the cost of labor)...
- **What happens to the supply curve?**

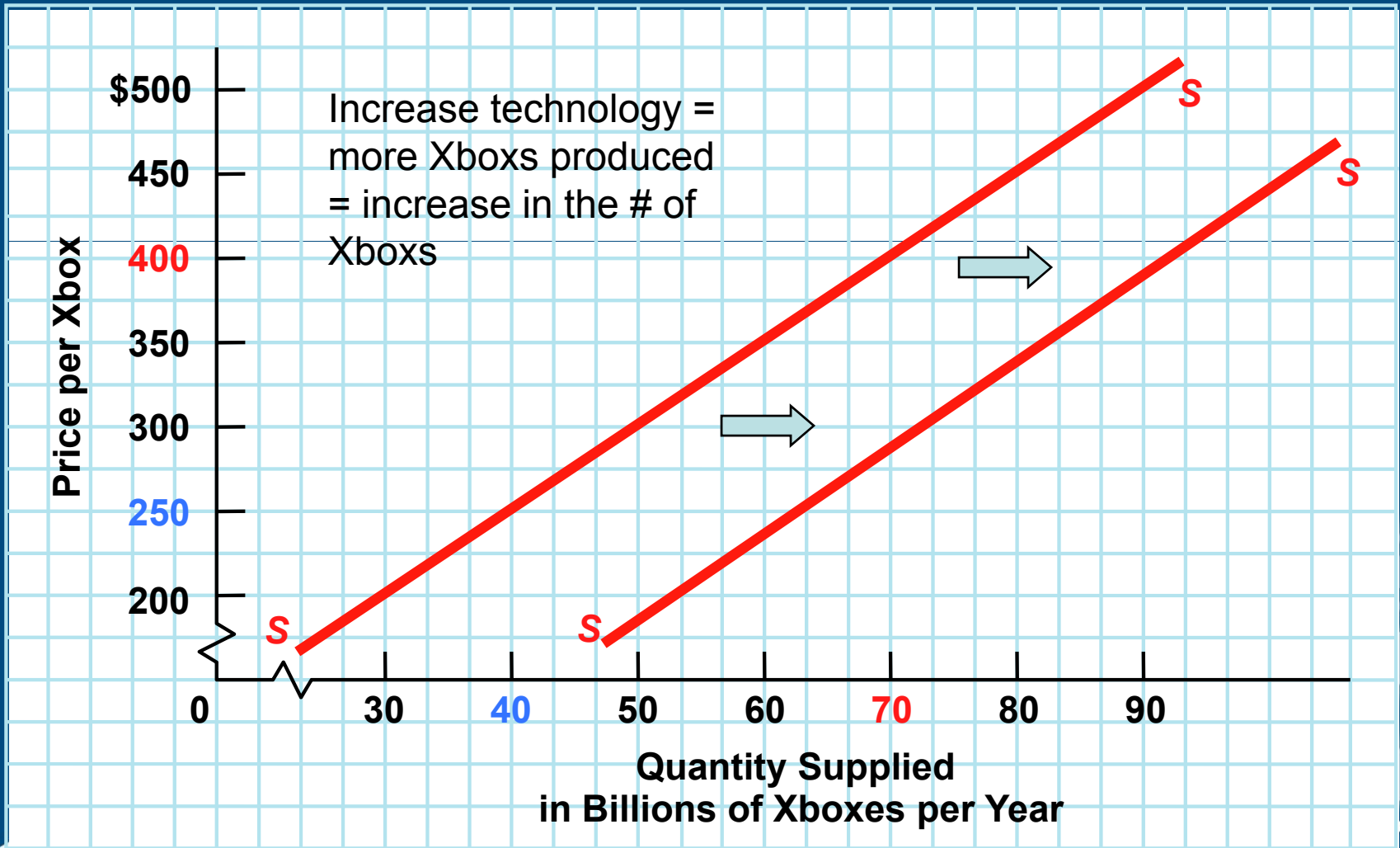
# Supply Curve for Xbox 360



## Scenario #2

- Our Xbox factory invents a technology that produces twice as many Xboxs in a day as before.
- **What happens to the supply curve?**

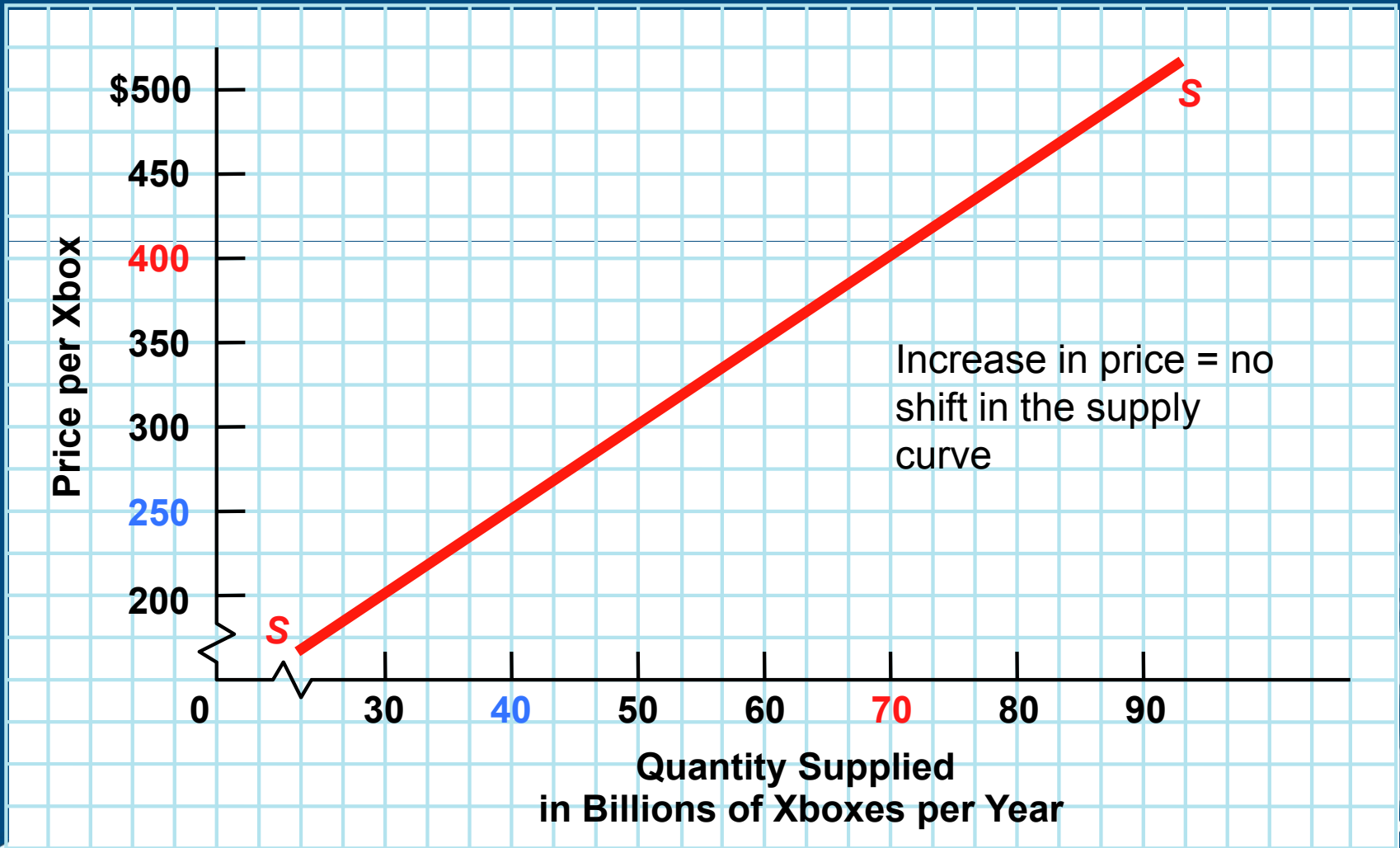
# Supply Curve for Xbox 360



## Scenario #3

- The CEO of our Xbox factory decides to increase the price of our Xboxs as a way to make more profit.
- **What happens to the supply curve?**

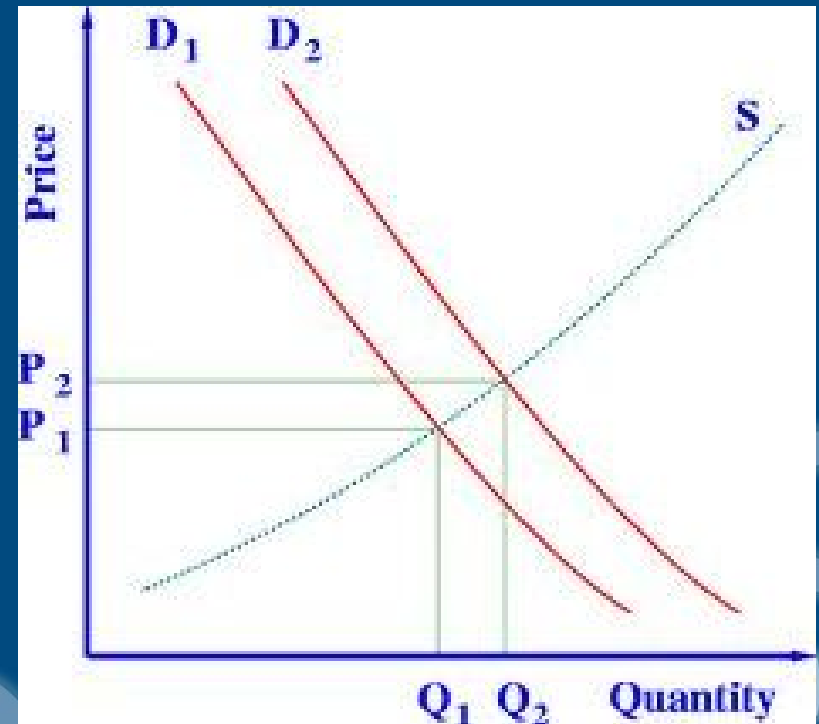
# Supply Curve for Xbox 360





# How does a demand curves move?

- A demand curve shifts whenever a factor that affects the demand of the good (other than price) changes
  - RIGHT: Increase in demand (at all prices)
  - LEFT: Decrease in demand (at all prices)



# What factors cause a shift in a demand curve?

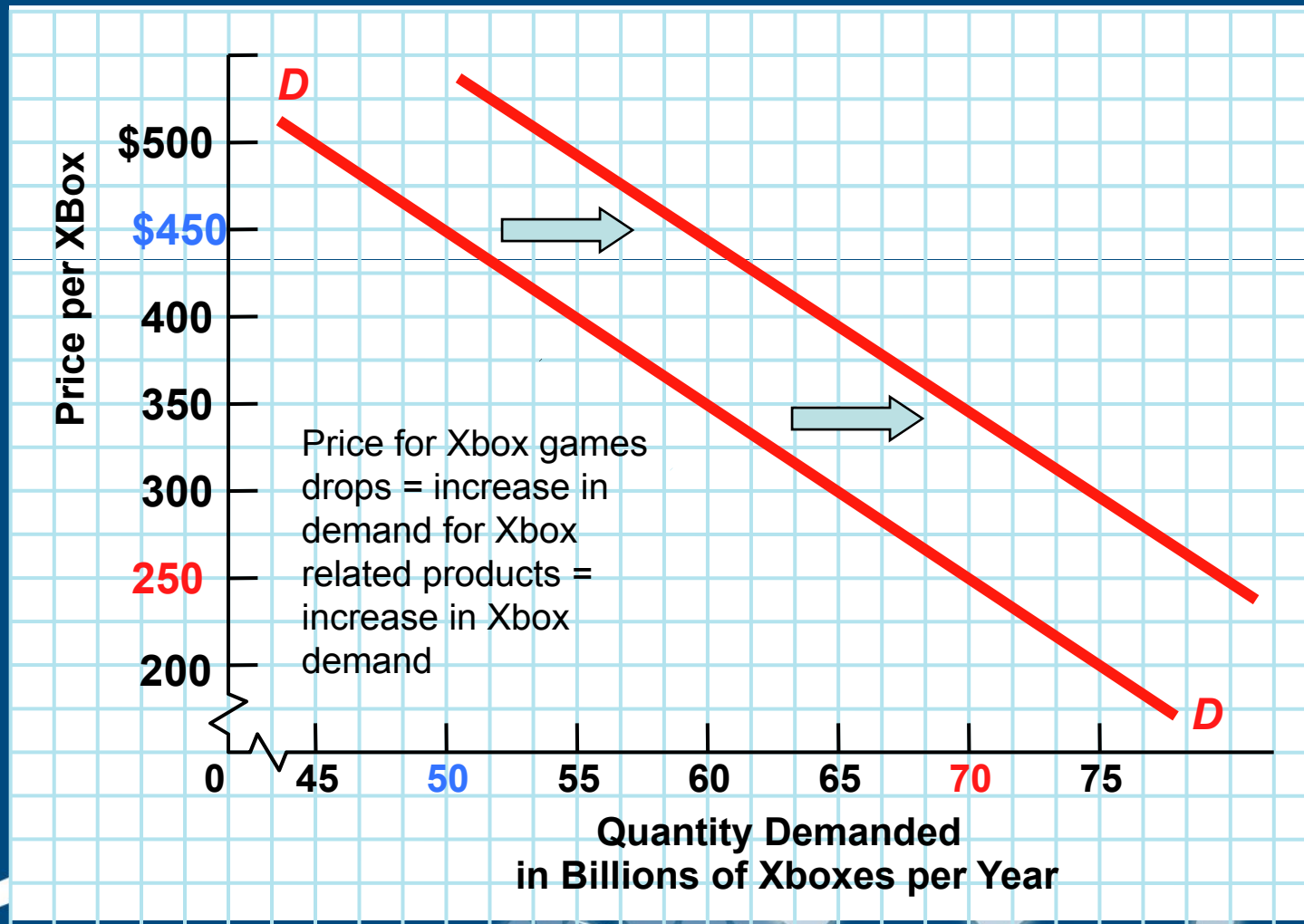
- Three (3) reasons:
  - Change in a consumer's income
    - Increase = RIGHT
    - Decrease = LEFT
  - Change in the price of a “substitute” goods
    - Increase = LEFT
    - Decrease = RIGHT
  - Change in consumer tastes
    - Increase = RIGHT
    - Decrease = LEFT



# Scenario #1

- A neighboring factory that produces Xbox games drops their price as part of a late winter sale...
- **What happens to our demand curve?**

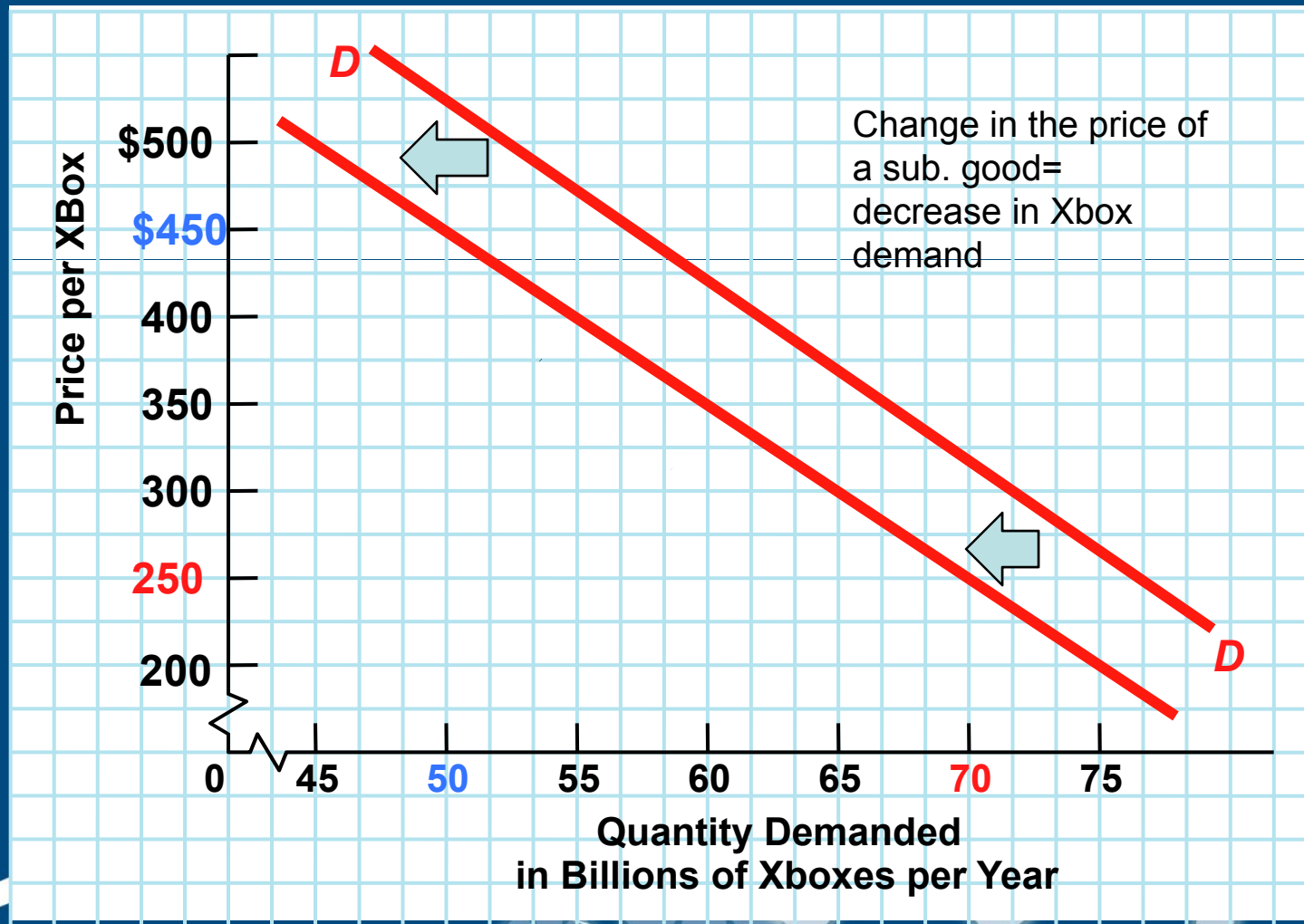
# Demand Curve for Xbox 360



## Scenario #2

- A rival company cuts the price of their version of the Xbox, making it half the price of our product.
- **What happens to our demand curve?**

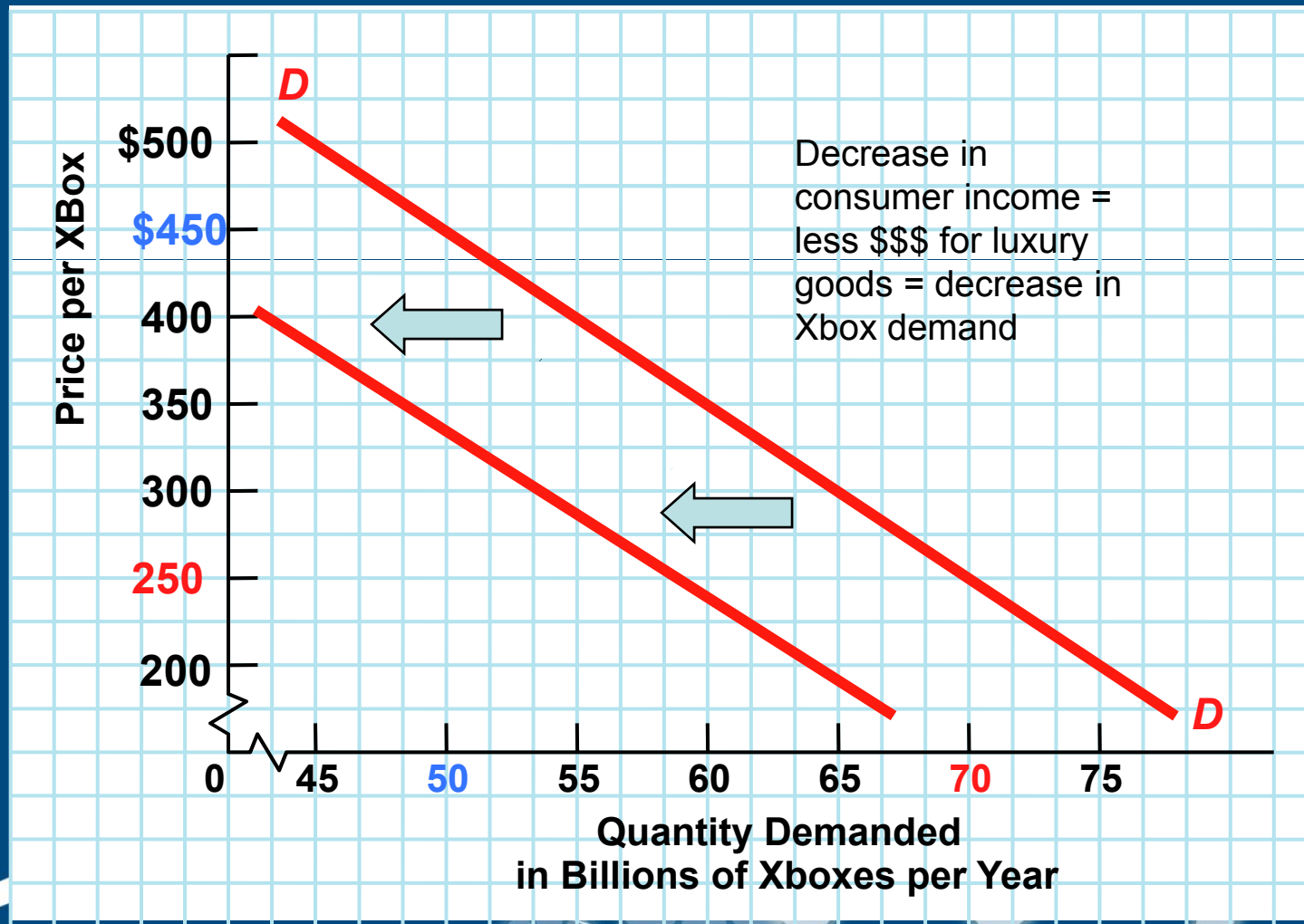
# Demand Curve for Xbox 360



## Scenario #3

- The local paper mill in a small town (where Xbox sales are high) closes, causing many people to lose their jobs.
- **What happens to our demand curve?**

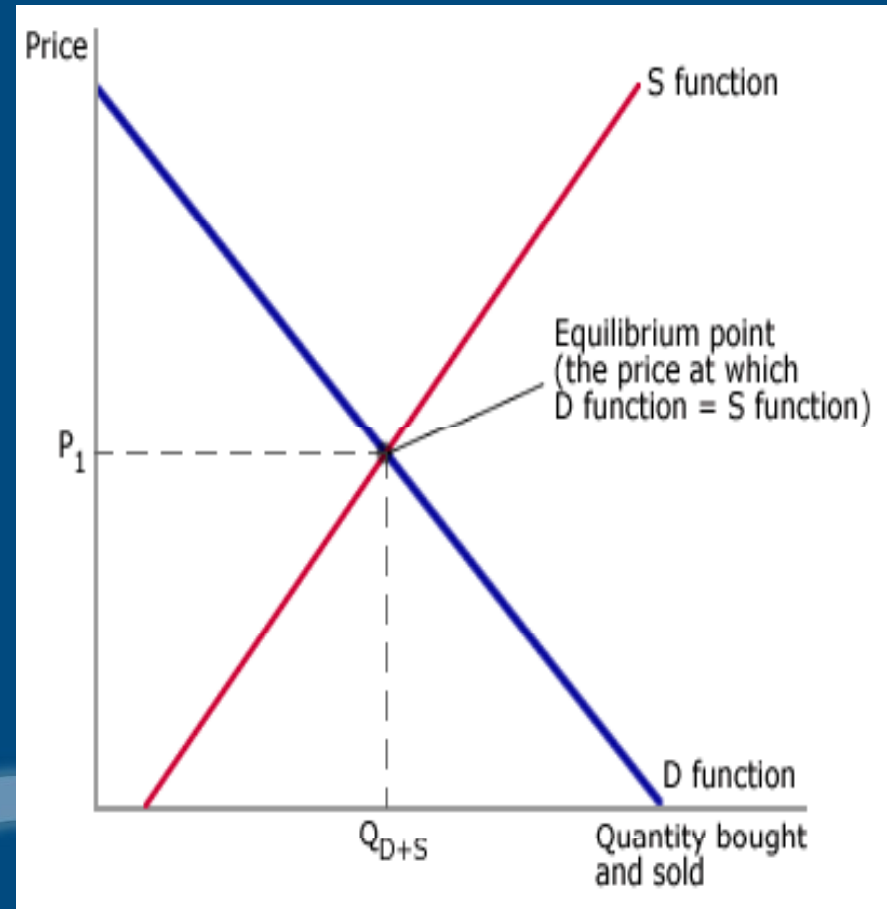
# Demand Curve for Xbox 360



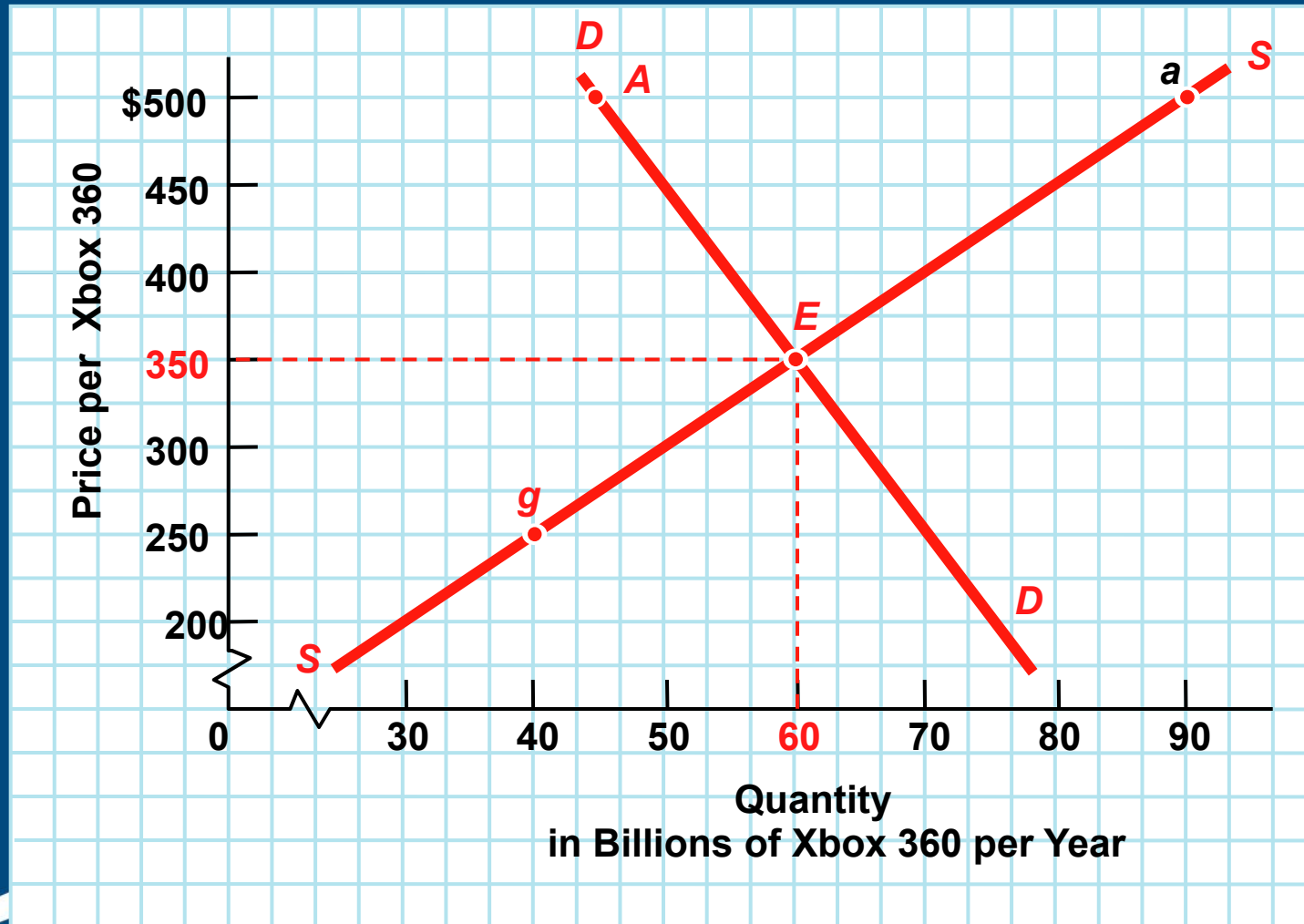


# What is “equilibrium”?

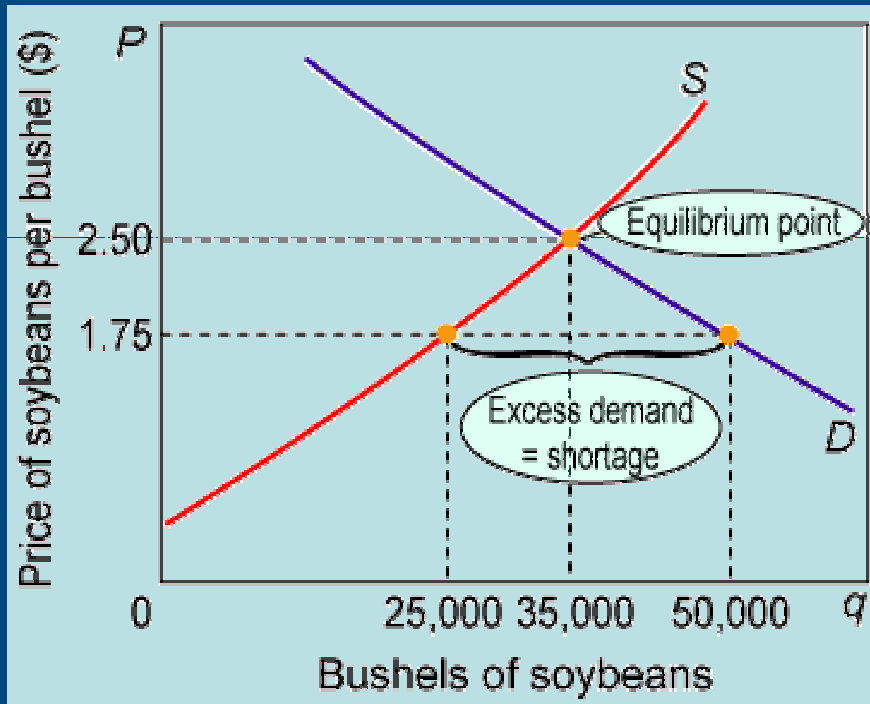
- Equilibrium is when quantity supplied and quantity demanded are equal
  - Perfection!!!!
- Many companies strive to reach economic equilibrium



# Supply-Demand Market Equilibrium



# Excess Demand: “Not Enough”



- **Excess demand** is when the quantity demanded exceeds the quantity supplied at a given price
  - Also known as a “shortage”
- When this happens, price tends to rise until equilibrium is restored
  - Black markets
  - Rationing
  - Violence

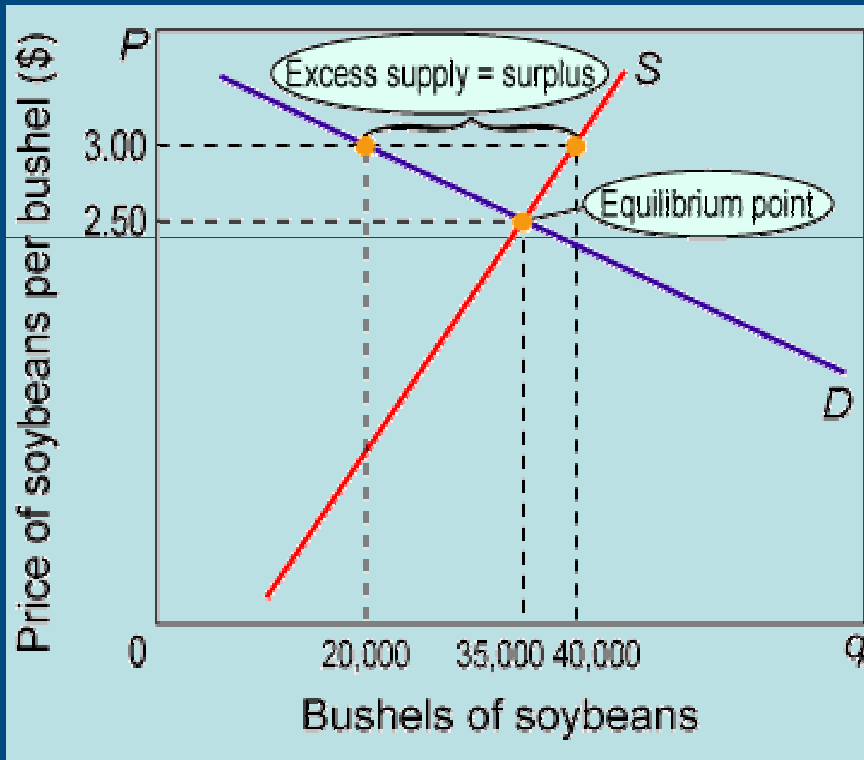
# Prohibition (1920's)



# The 1973 Oil Embargo



# Excess Supply: “Having too much”



- **Excess supply** is when the supplied exceeds quantity demanded at a given price.
  - Also known as a “surplus”
- When this happens, prices tend to fall until equilibrium is restored
  - Little re-sale value
  - Lack of consumer interest
  - Worthlessness

# The Pet Rock (1970's)



# Disco Music (1970's - 1980's)





# Beanie Babies (1990's)

