

Mankiw Macro Chapter IV: The Market Forces of Supply and Demand

Introduction (pg 65)

What happens to price of downtown hotel rooms after a bomb explodes downtown?

What happens to the price of concrete after a flood?

What happens to the price of Oil when Iran goes to war with Iraq

What happens to the price of Cars? Motorcycles?

The Theory of supply and demand.

The most powerful, simple theory you can learn of anything...

What is a market? (pg 66)

A market is when you have multiple buyers, and sellers,

All have come together in one place to buy and sell a product

Example: where to buy a phone in Bangkok

Example: Expedia, Chatuchak, Khoa San

What is Competition?

A competitive market is one where nobody can dictate prices

In econ-speak, everybody is a price-taker

In a perfectly competitive market,

If you charge a higher price, nobody will buy,

If you offer to pay a lower price, nobody will sell to you

The more buyers and sellers, the thicker (more competitive) the market

Fewer buyers/sellers creates a thinner (less competitive) market

Only one seller, but many buyers, is a monopoly (Phones example):

We will assume perfectly competitive markets for now.....

Demand Pg. 67

The demand curve or schedule, the relationship between price and quantity

This is ALL the quantities purchased at ANY given price,

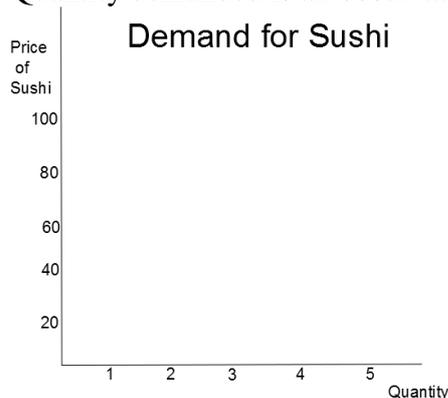
It is a schedule, or line, graphing the relationship

The quantity demanded, the amount purchased at any given price

At the CURRENT MARKET PRICE, how much is purchased

It is a point, possibly observed, of what is/was purchased

Quantity demanded is an observation, the demand schedule is derived



Price of Sushi	Quantity Demanded
100	1
80	2
60	3
40	4
20	5

Demand slopes downwards

This is an assumption, that is PROBABLY always true...

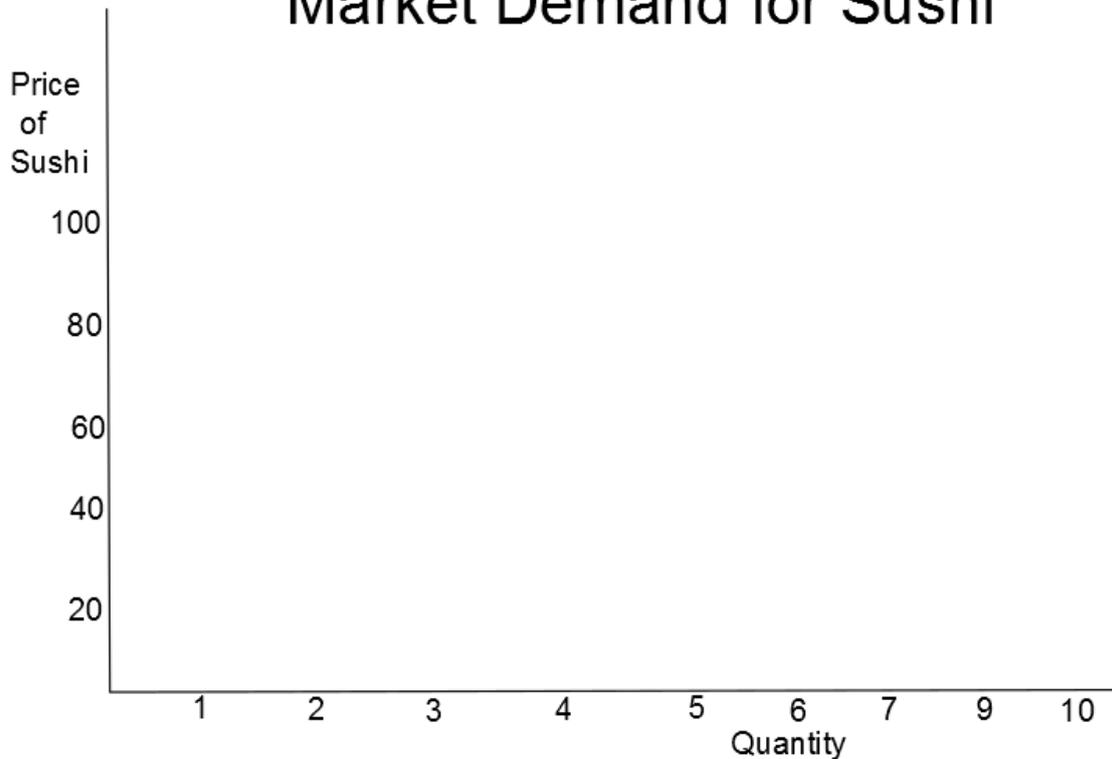
Price of Sushi	Crusoe's Demand	Friday's Demand	Market Demand
100	1	0	1
80	2	1	3
60	3	2	5
40	4	3	7
20	5	4	9

Individual Demand, and market Demand

Individuals have private demand schedules, the total is the market demand

So, what is the market demand for Crusoe and Friday?

Market Demand for Sushi



Shifts in the Demand Curve.....

The demand schedule is a map of the quantity purchased, at any given price, CETERIS PARIBUS

Ceteris Paribus: "Holding all other things the same"

What if we change some things?

If we do, then the demand schedule can change.

Question: Are we all certain we are clear on the difference between the quantity demanded and the demand curve?

Example 1. The demand for Mama Noodles, the Demand for Sushi.....
Normal goods, Luxury (Superior) Goods, Inferior goods

Example 2. The Demand for Playstations, (Xboxes, playstation games)
Complements and substitutes

Example 3. The Demand for Smoking Pipes
(Tastes, and taste formation)

**Example 4. The demand for the Iphone 6, Samsung 6
(Expectations)**

**Example 5. The demand for Macroeconomics 6th edition in August
(The number of buyers)**

Summary of things that shift the demand curve

Change in Income

Inferior goods shift in (demand decreases)

Normal goods shift out (demand increases)

Luxury goods shift out alot (demand increases by more than income)

Change in the price of Related Goods

If the price of a complement increases(decreases), demand shifts in
(out)

If the price of a substitute increases(decreases), demand shifts out(in)

Change in the Tastes

If people want it more, demand shifts out

If people want it less, demand shifts in

Everything in marketing is about measuring and influencing, tastes

Change in Expectations

Whatever people expect in the future, tends to happen now...

Change in the number of buyers

As new people enter (exit) the market, demand shifts out(in)

Book example: How to reduce smoking.....

Supply, the other half of Supply and Demand

The supply curve is the relationship between price and the quantity supplied

It is a derived relationship, we calculate it from many observations

It shows the relationship Ceteris Paribus

Also called the supply schedule

The Quantity Supplied is the amount of a good that sellers will sell at a given price

It is a point, or often, an observed variable

Price of Sushi	Quantity Supplied
100	700
80	600
60	500
40	400
20	300

Like Demand, there is both INDIVIDUAL supply, and MARKET supply

Price of Sushi	Fuji Supplies	Zen Supplies	Market Supply
100	700	900	1600
80	600	700	1300
60	500	400	900
40	400	200	600
20	300	100	400

Shifts in the Supply Curve (pg 74)

Like with demand, the above is CETERIS PARIBUS
So what can shift the Supply curve?

Example 1: An increase in the price of Oil in the production of Sushi...
(changes to the costs of Inputs)

Example 2: Better Sonar in the production of Sushi....
(Changes to Technology)

Example 3: Here come the Pan-Asian games, and many, many Japanese...
(Expectations)

Example 4: Otoy enters the Market...
(changes in the number of suppliers)

Summary of things that shift the Supply schedule

Input Prices

A rise in input prices shifts supply inwards

A decline in input prices shifts supply outwards

Technology

Better technology shifts the supply curve outwards

Expectations

Expectations of future changes in input prices, or demand

Number of Sellers

New Entry(Exit) shifts the supply curve out(in)

SUPPLY AND DEMAND (pg 77)

It is the combination of the two that determines MARKET EQUILIBRIUM

Equilibrium: when the market price of a product is such that the quantity supplied is equal to the quantity demanded.

Equilibrium Price: The price that balances the quantity supplied and demanded, at the equilibrium price there are not shortages or surpluses

Shortage: When more people want to purchase the good than sellers are willing to provide

Surplus: When sellers are providing more of the good than purchasers are willing to buy.

The Law of Supply and Demand: The claim that the price of any good will adjust to bring the quantity supplied and the quantity demanded into equilibrium

The Supply and Demand for Sushi....

What if we are NOT in equilibrium?

A change in the supply and demand for Sushi

Three Steps:

- Did supply shift, did demand shift, or did both shift?
- Did it (they) shift in or out (left or right)?
- What has happened to the equilibrium price and quantity?

So what happens to the P and Q of Sushi if there is a fear of Sushi poisoning?
If bird flue re-appears in Thailand? If the price of oil goes up?

Complex Example: What happens to the market for Motorcycles when the price of oil rises?

What implications are there from Sex-selected abortions in China and India?