The Simple Market Model

Combining Supply & Demand

Combining Demand & Supply

- Demand Factors:
  - Price (-)
  - Future Price Expectations (+)
  - P Related Goods (+/-)
  - Income
  - Tastes & Pref.
  - Population

- Supply Factors:
  - Price (+)
  - Future Price Expectations (-)
  - P Related Goods (-/+)
  - Price of Inputs
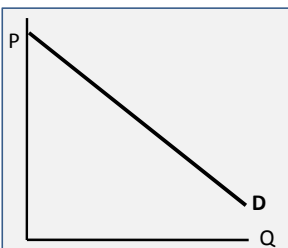 - Technology
  - # of Sellers

A Demand Curve
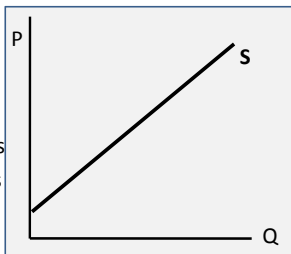
- Demand Depends on:

- Price (-)

- Everything Else:
  - Future P Expectations
  - Price - Related Goods
  - Income
  - Tastes & Preferences
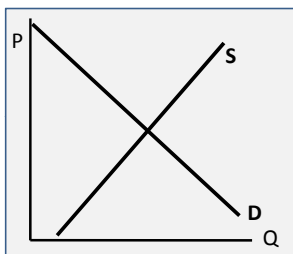 - Population

A Supply Curve

- Supply Depends on:
- Price (+) ➡

- Everything Else:
  - Future P Expectations
  - Price - Related Goods
  - Price of Inputs
  - Technology
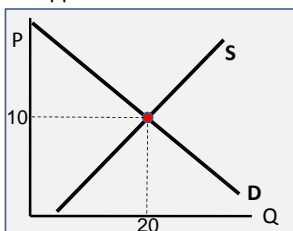 - Number of Sellers

Basic Market Model:
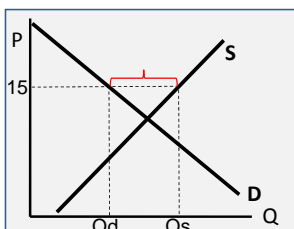
- Demand Curve

- Supply Curve

X Marks the Spot:

Basic Market Model:

- Equilibrium:
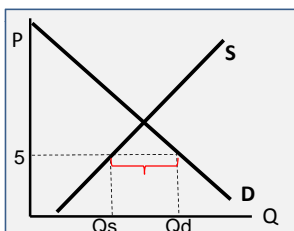 - Balancing of Forces
  - Q Demanded = Q Supplied

Basic Market Model:

- Price Above Equilibrium
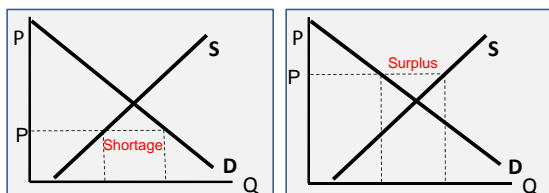 - Qs > Qd
  - Excess Supply
  - Surplus

Basic Market Model:

- Price Below Equilibrium
  - Qd > Qs
  - Excess Demand
  - Shortage

Basic Market Model:

- Market Adjustment ➔ Price Adjustment
- Price Adjustment ➔ Coordination
  - Shortage ➔ Upward Pressure on Price
  - Surplus ➔ Downward Pressure on Price

Wrap Up:

- Comparison of Demand & Supply Functions
- Repackaging/Simplifying Demand & Supply
  - Price…..and Everything Else
  - 2 Dimensional Graphs: Demand & Supply Curves
  - Laws of Demand & Supply
- Equilibrium = Balance
- Disequilibrium
  - Surplus/Shortage
  - Price Adjustment ➔ Coordination