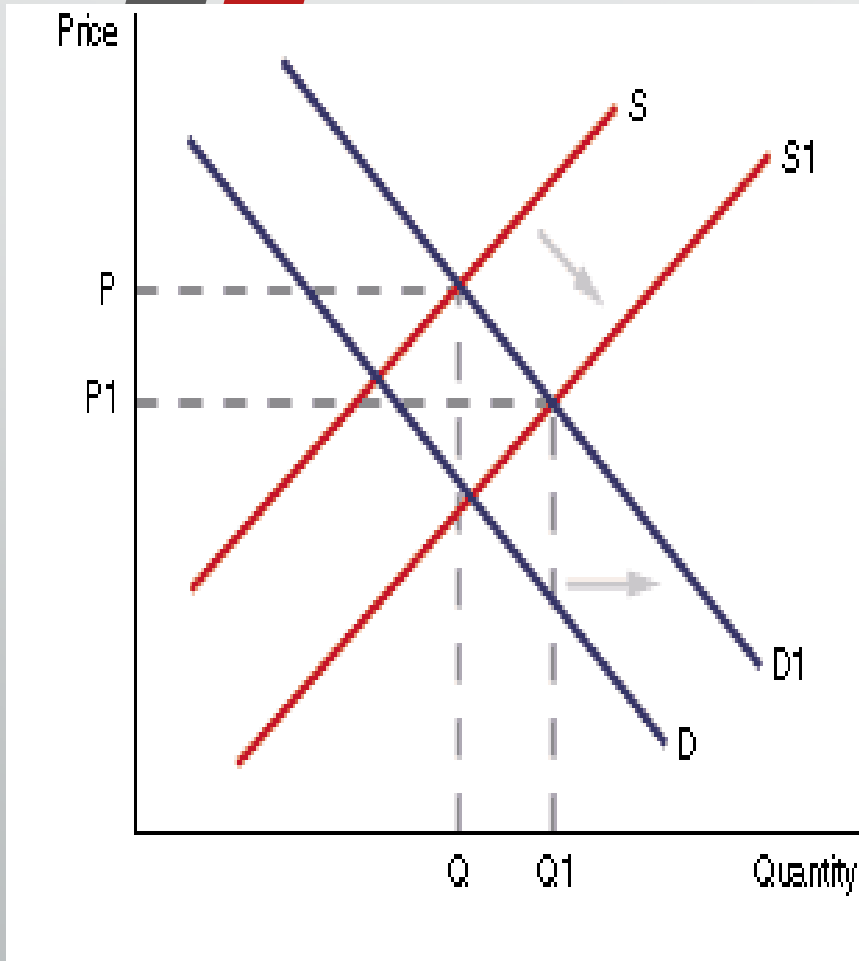


Unit 2 – Markets, Supply, Demand, and Price



CHANGING SUPPLY AND DEMAND

Because people change their minds...wait, no they don't... wait, yes they do... no they don't...

Day 3

Objectives

- Identify the 4 primary Determinants of Demand
 - Identify the 6 Determinants of Supply
 - Understand the way these Determinants affect Supply and Demand Curves *and* price
- *Terms:*
 - Taste
 - Income
 - Taxes
 - Subsidies
 - Technology
 - Competition

Remind me...

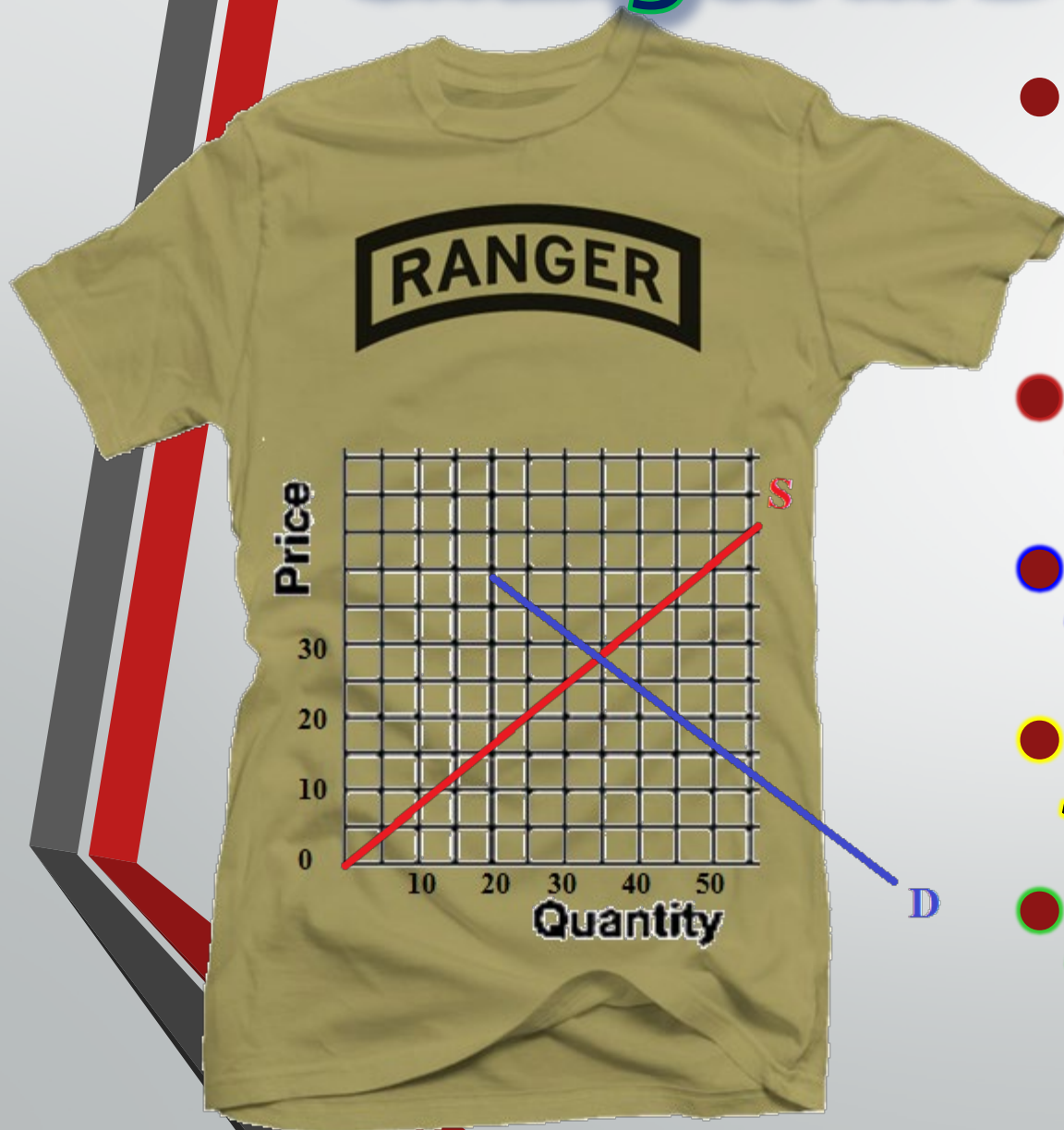
- What is Supply?
- What is Demand?
- *How does Price affect these? (Laws of ...)*
- *Today we look at the things that can change the ENTIRE Curve....*

Changes in Demand...



- *Suppose we are selling Ranger T-Shirts...*
- *After study, we realize the equilibrium price is \$20.00*
 - *Remind me, what does that mean?*
- *Assuming the price stays the same, what might still change the demand?*

Changes in Demand...



- There are 4 Primary Factors that change Demand
- **1 – Substitutes**
- **2 – Expectations**
- **3 – Taste**
- **4 – Income**

Determinants of Demand...

- ***1 – Substitutes***

- ***A different good or service that can satisfy the want or need for another***

- ***Hopefully you remember this ☺***

- ***ex. A Double Cheeseburger for a Double Down***



- ***How could that change Demand?***

Determinants of Demand...

- *2 – Expectations*

- *What people think will happen*

- *i.e. future value*

- *ex. Buying baseball cards you think will be worth more in the future, OR buying a quality product you think will last*



- *How could that change Demand?*

Determinants of Demand...

- *3 – Taste*
 - **Consumers preferences**
 - *i.e. what they like*
 - *ex. For unknown reasons, some people like jeggings*
 - *How could that change Demand?*



Determinants of Demand...

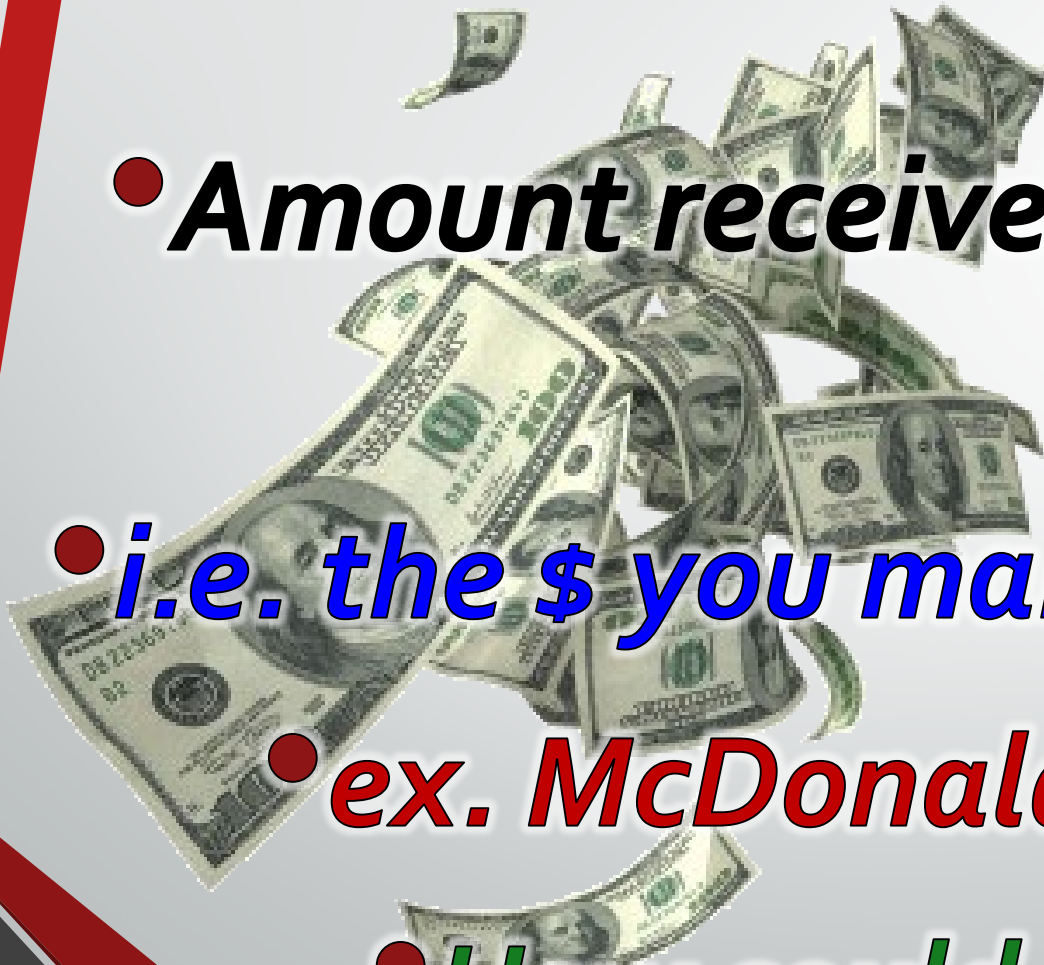
• 4 – Income

• Amount received for goods or services during a time period

• i.e. the \$ you make workin' for the man

• ex. McDonald's pays \$7.25 per hour

• How could that change Demand?




Changes in Demand...

- *When these things change Demand, we mean **AT THE SAME PRICE...***

- *In other words, the entire "curve" has changed*

- *What will happen to the **PRICE** then?*

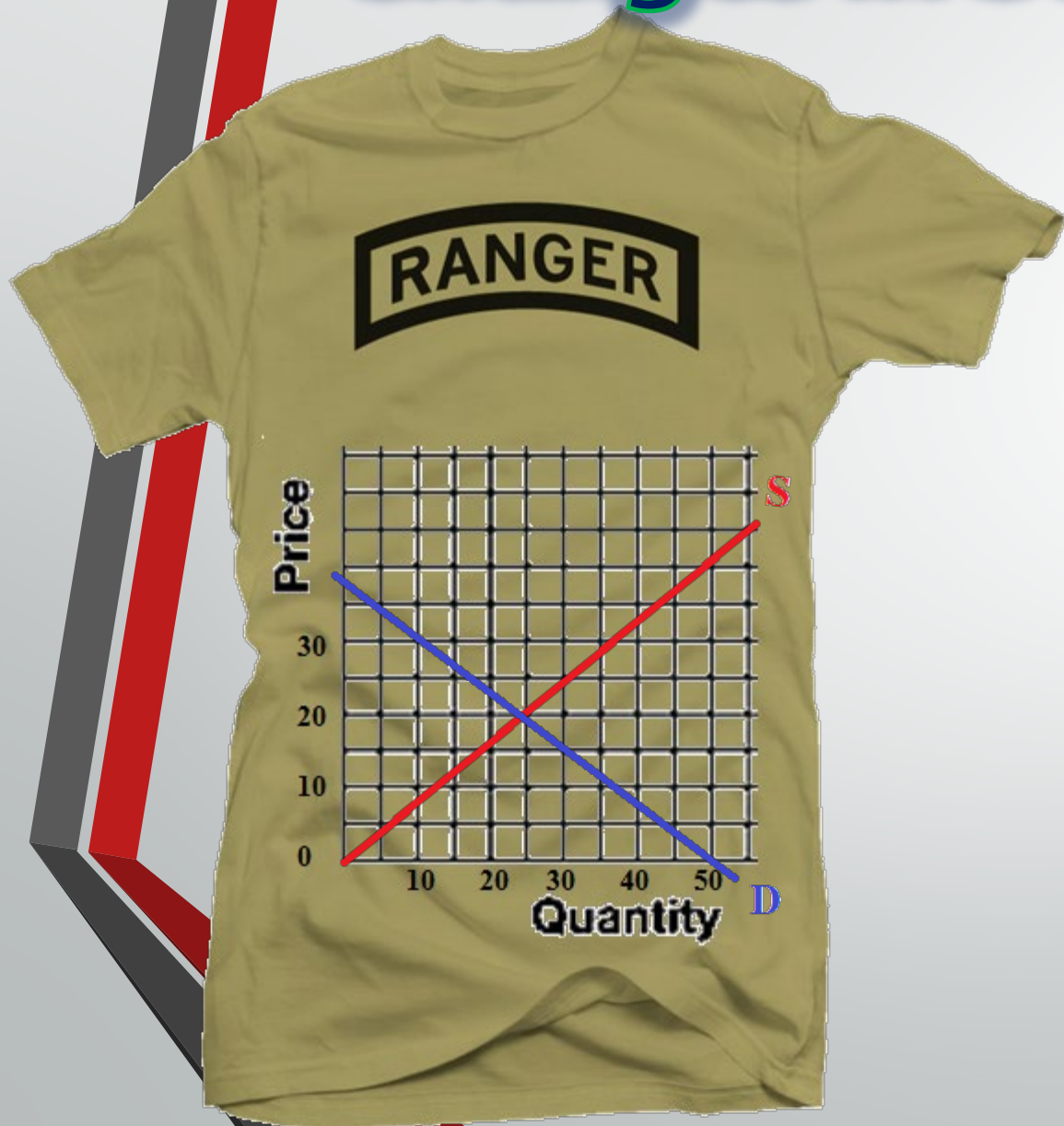
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However, it's not
only Supply that
affects Equilibrium
Price....

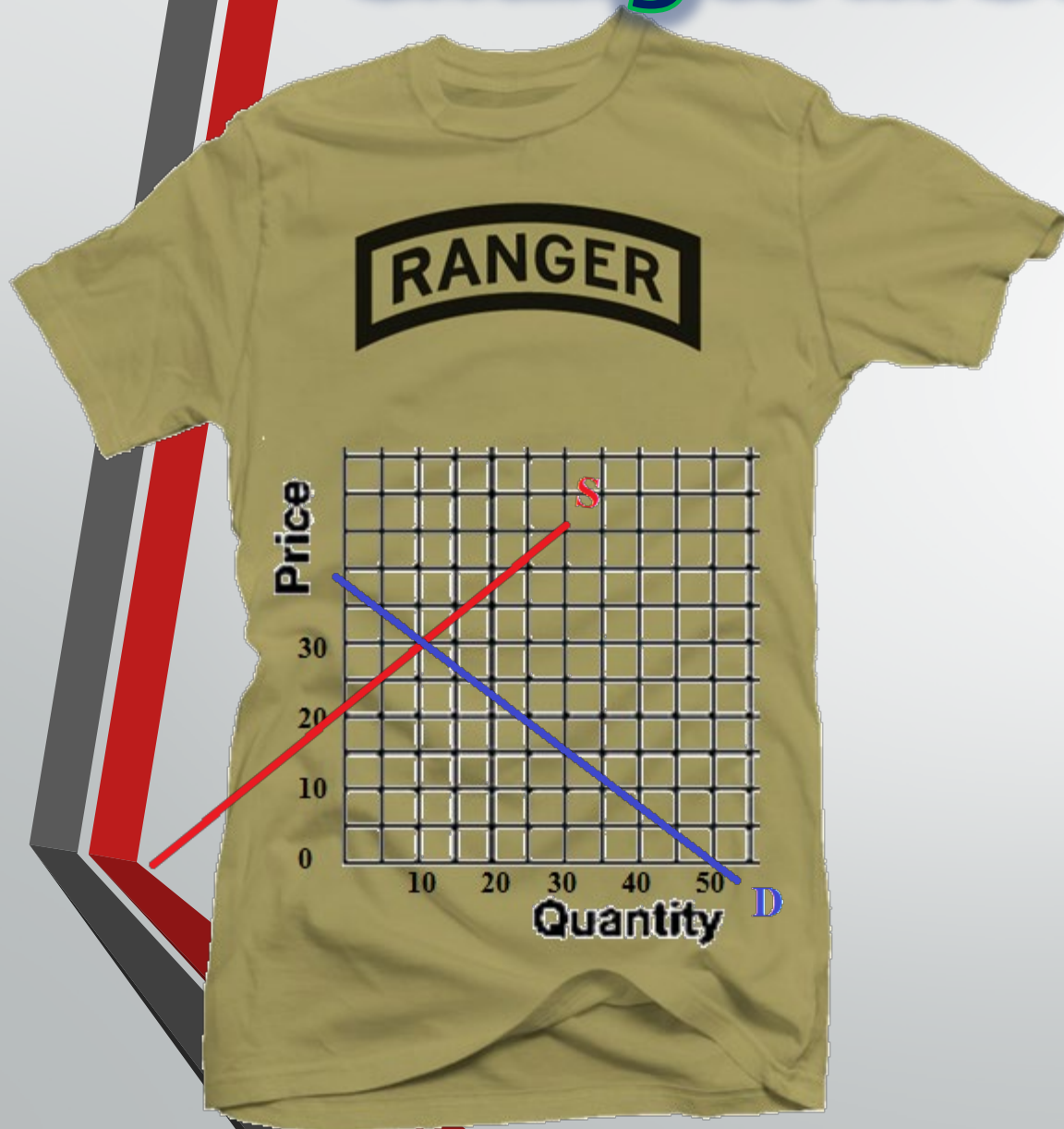


Changes in Supply...



- *Back to our Ranger shirts...*
- *What could change the supply?*
 - *Remind me, what does supply mean?*

Changes in Supply...



- There are 6 Primary Factors that change Supply
- **1 – Substitutes**
- **2 – Expectations**
- **3 – Cost**
- **4 – Taxes and Subsidies**
- **5 – Technology**
- **6 – Competition**

Determinants of Supply...

- ***1 – Substitutes***

- ***SAME AS BEFORE***

- ***ex. Consumers could use the Bus instead of buying your expensive car***

- ***How could that change Supply?***



Determinants of Supply...



- *2 – Expectations*
- *SAME AS BEFORE*
- *i.e. future market*
- *ex. Are you going to release a "new version" any time soon?*
- *How could that change Supply?*

Determinants of Supply...

- *3 – Cost*

- *What you require to Produce*
- *i.e. what it takes to make your product*
- *ex. In order to make Lund's Port-o-Potties, it takes lumber, plastic, chemicals, and poop...*
- *How could that change Supply?*

Determinants of Supply...

- **4 – Taxes and Subsidies**

- **Taxes**

- **A charge from government to either Consumer or Producer in a transaction**

- **ex. Having to pay Sales Tax of 7% on your food**

- **How could that change Supply?**



**I WANT YOUR
TAXES**

Paying Taxes is Patriotic!

Determinants of Supply...

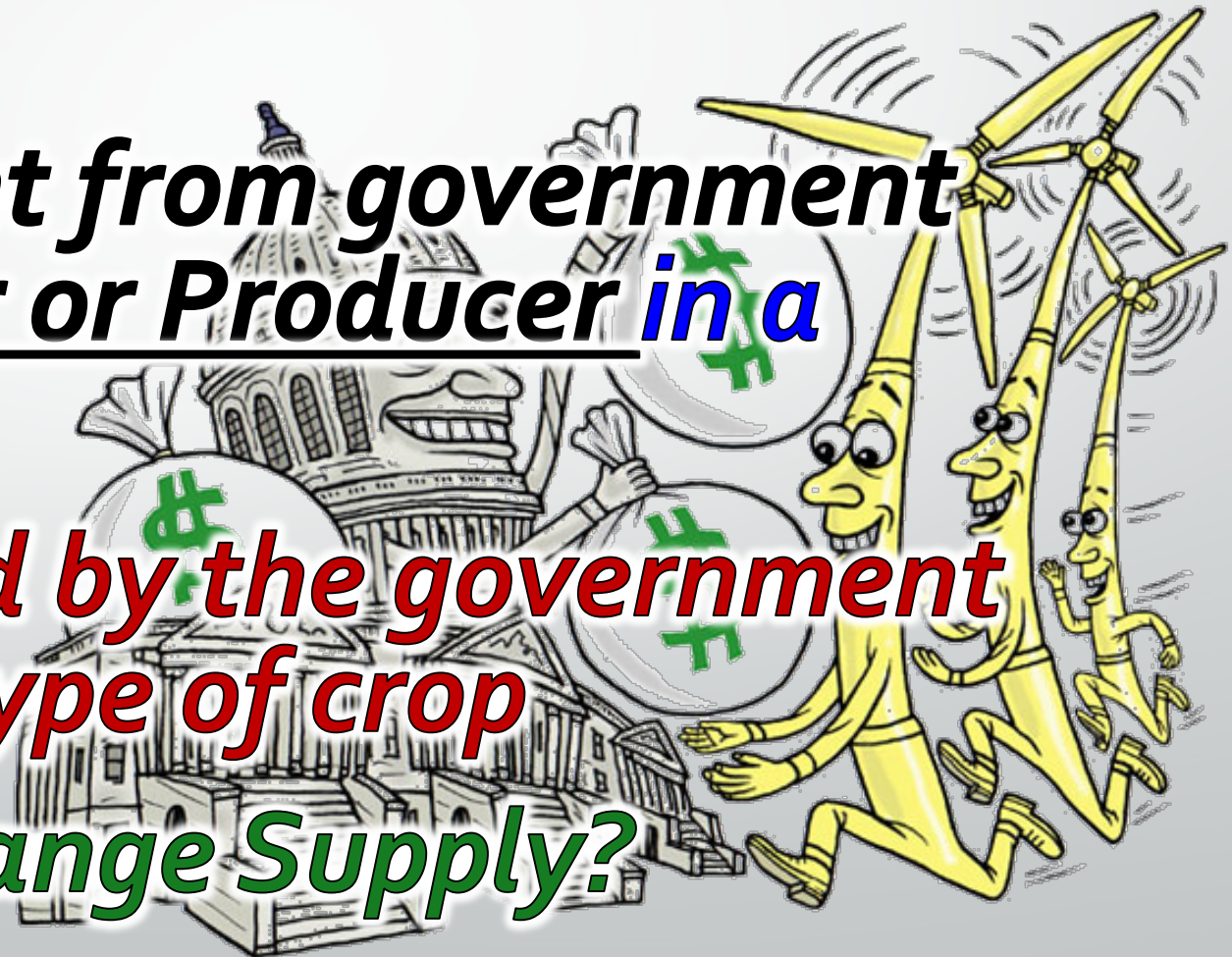
• *4 – Taxes and Subsidies*

• *Subsidies*

• *A credit or payment from government to either Consumer or Producer in a transaction*

• *ex. A farmer is paid by the government to grow a certain type of crop*

• *How could that change Supply?*



Determinants of Supply...

• 5 – Technology

• Process and tools used to turn inputs into outputs

• NOT just “computers and stuff”

• ex. Developing a faster way of putting the chocolate on the Twix cookie

• How could that change Supply?



Determinants of Supply...

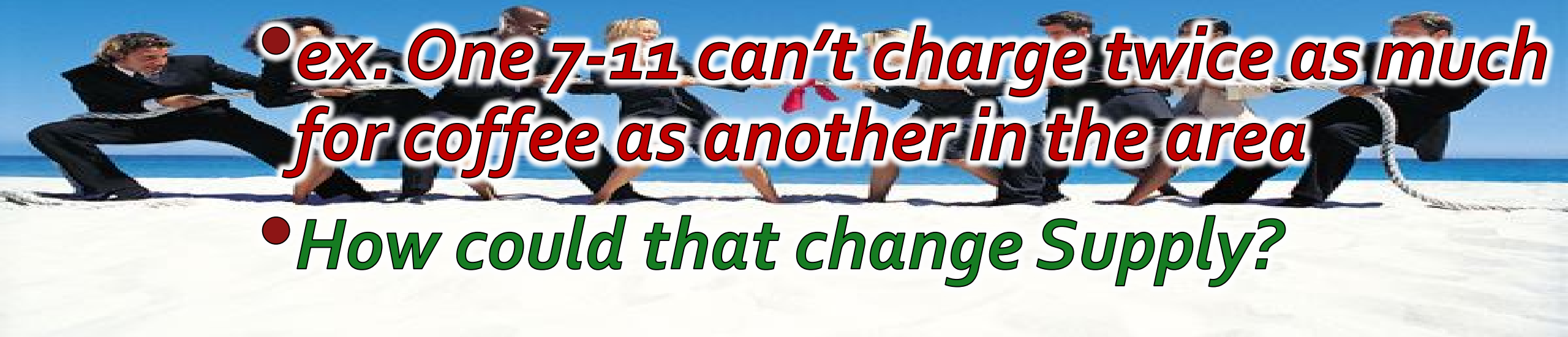
- **6 – Competition**

- ***The number of other sellers***

- ***NOT substitutes, but the SAME product or good or service***

- ***ex. One 7-11 can't charge twice as much for coffee as another in the area***

- ***How could that change Supply?***



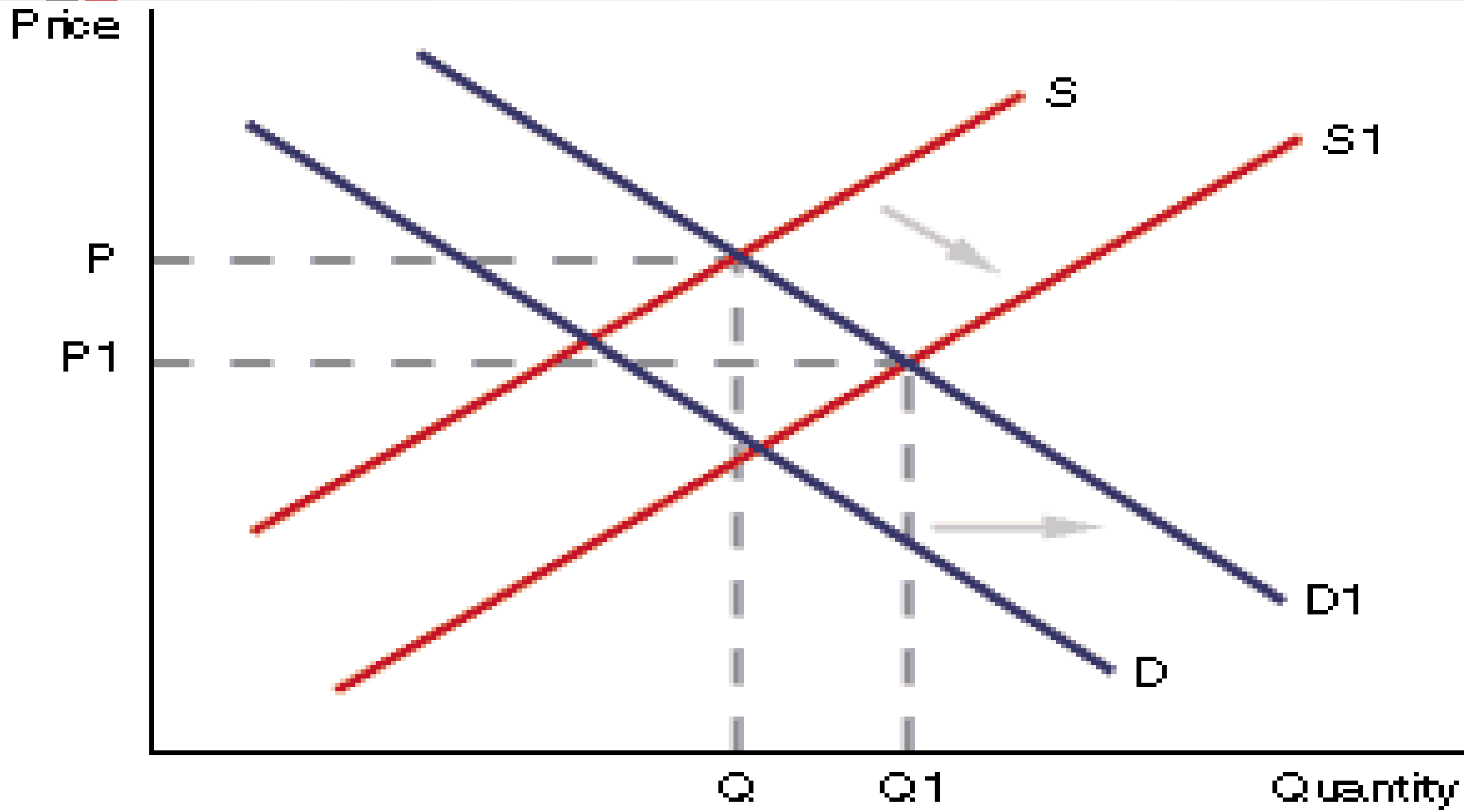
Changes in Supply...

- *When these things change Supply, we mean **AT THE SAME PRICE...***
- *In other words, the entire "curve" has changed*
- *What will happen to the **PRICE** then?*

Now we put it all
together...

D

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Review

- *Note: "Increase" means to move Right, "Decrease" means to move left. Not "up" and "down"*
- What happens to the equilibrium price as the *supply* **INCREASES?**
- What happens to the equilibrium price as the *supply* **DECREASES?**
- What happened to the equilibrium price as the *demand* **INCREASES?**
- What happened to the equilibrium price as the *demand* **DECREASES?**

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