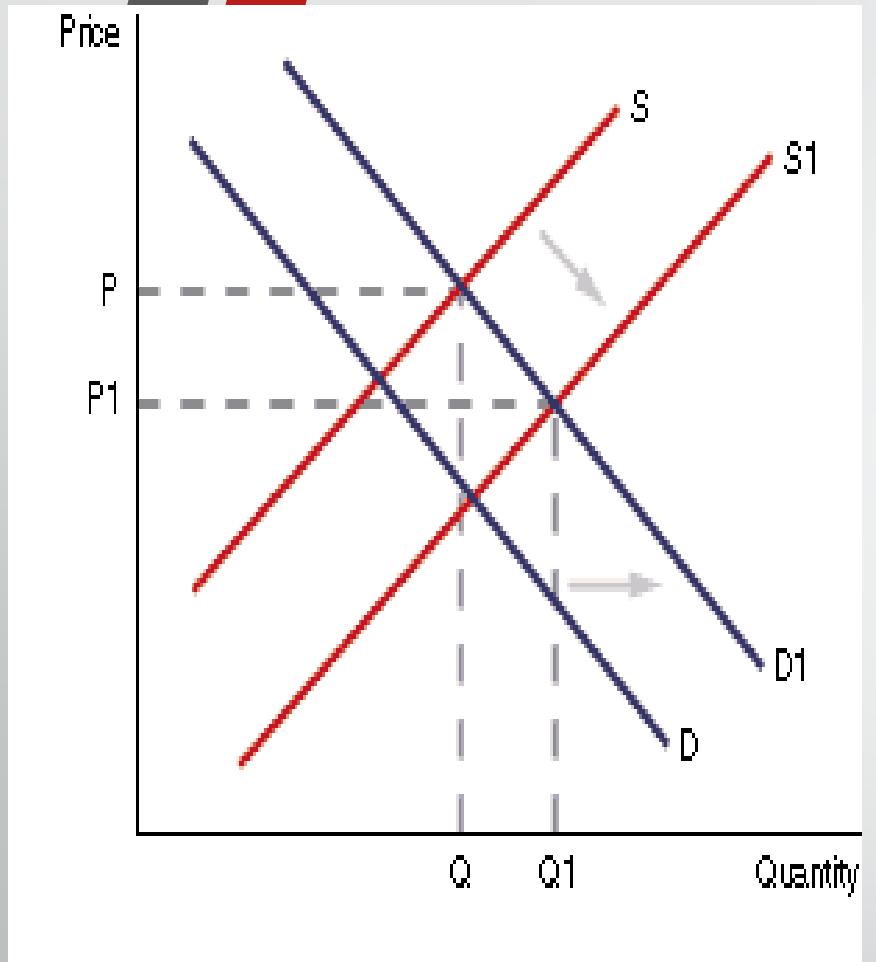


Unit 2 – Markets, Supply, Demand, and Price



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...

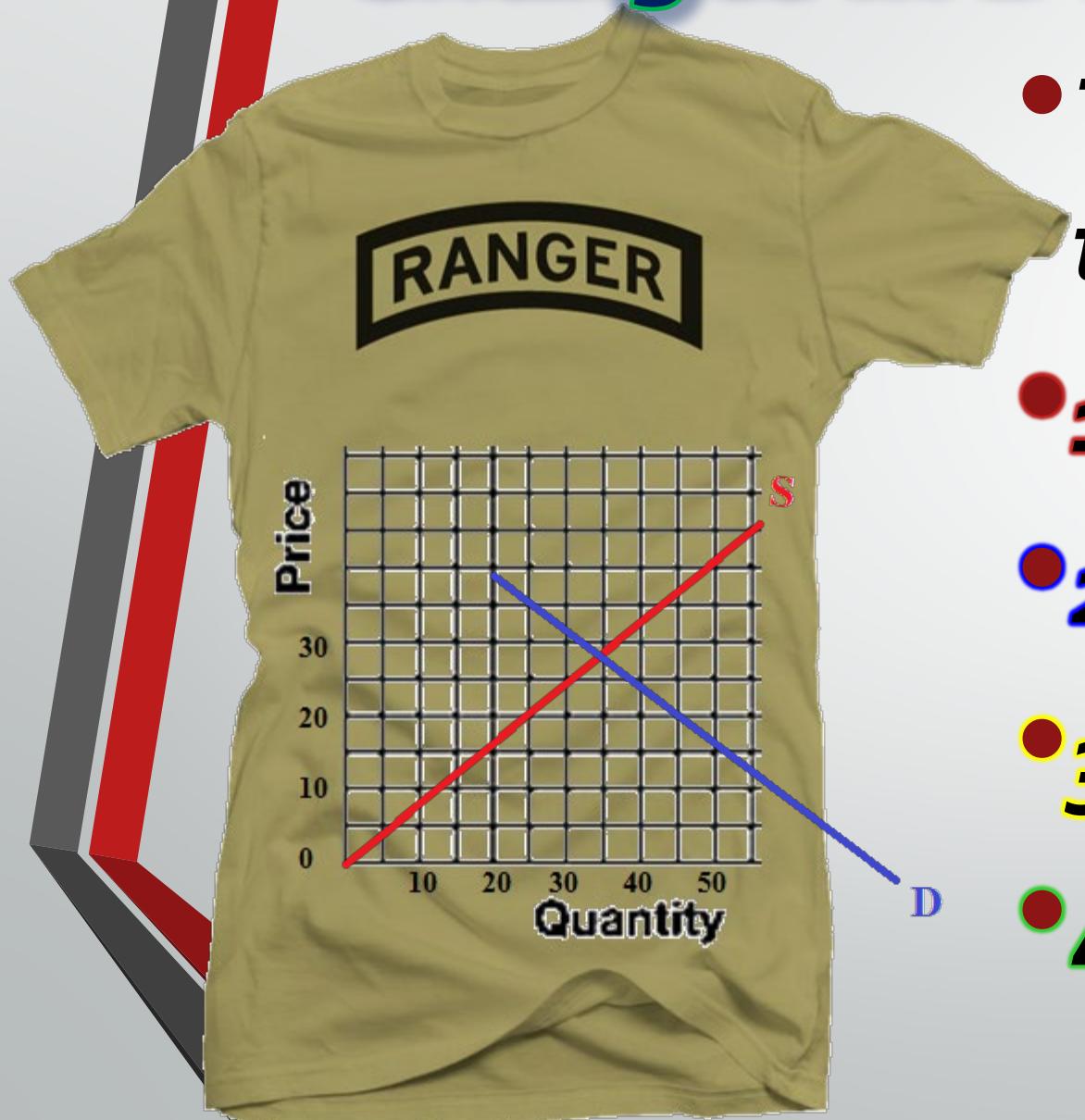
- **What is Supply?**
- **What is Demand?**
- ***How does Price affect these? (Laws of...)***
- ***Today we look at the things that can change the ENTIRE Curve....***

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?*

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

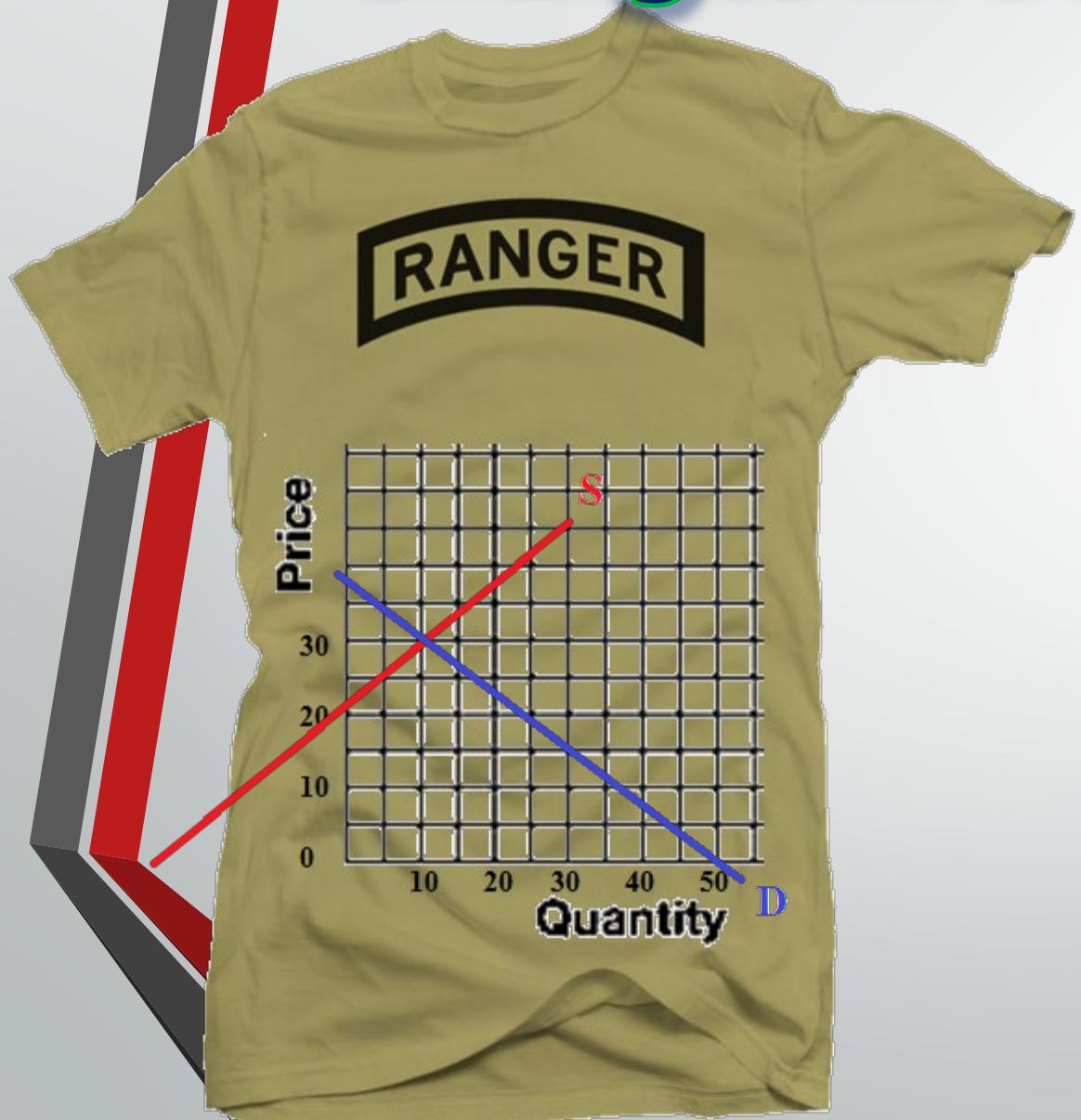


Changes in Supply...



- *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...

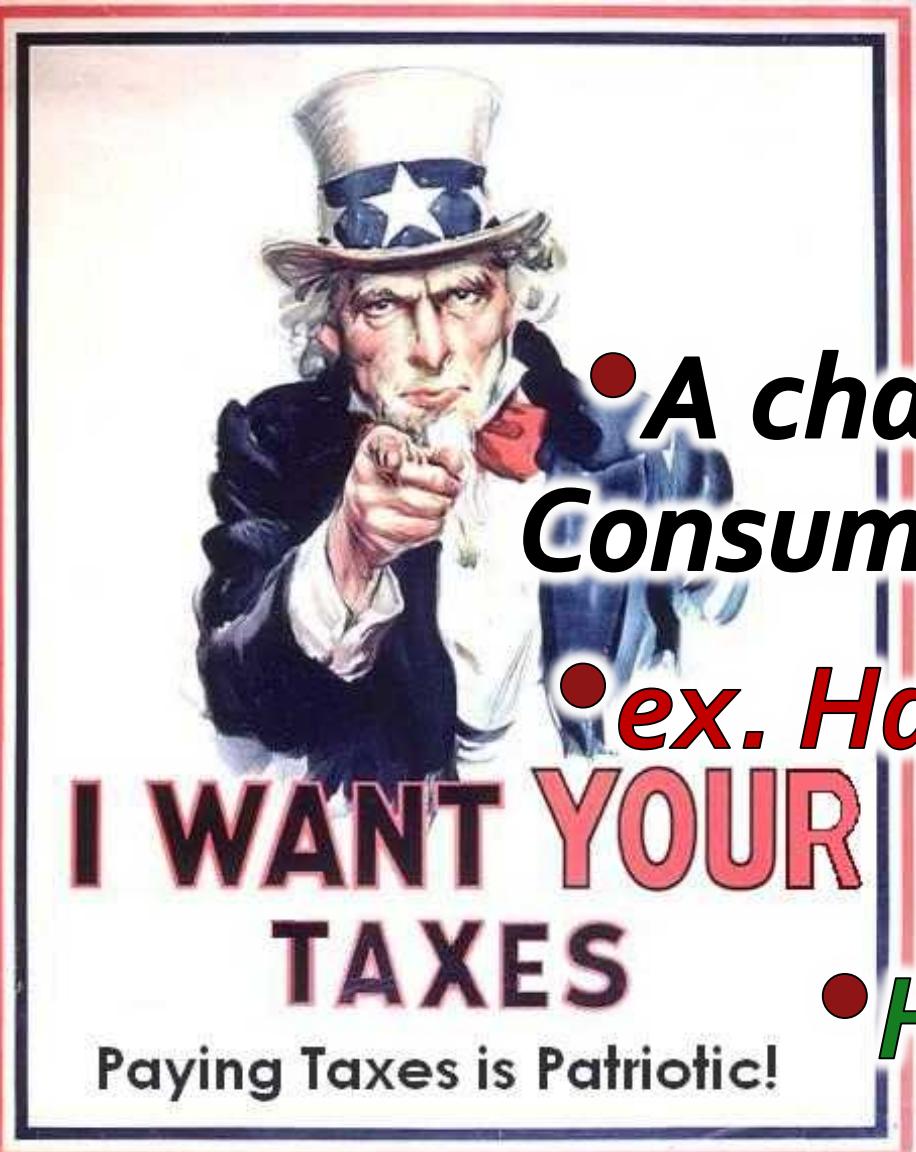
• 4 – Taxes and Subsidies

• 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?*



Determinants of Supply...

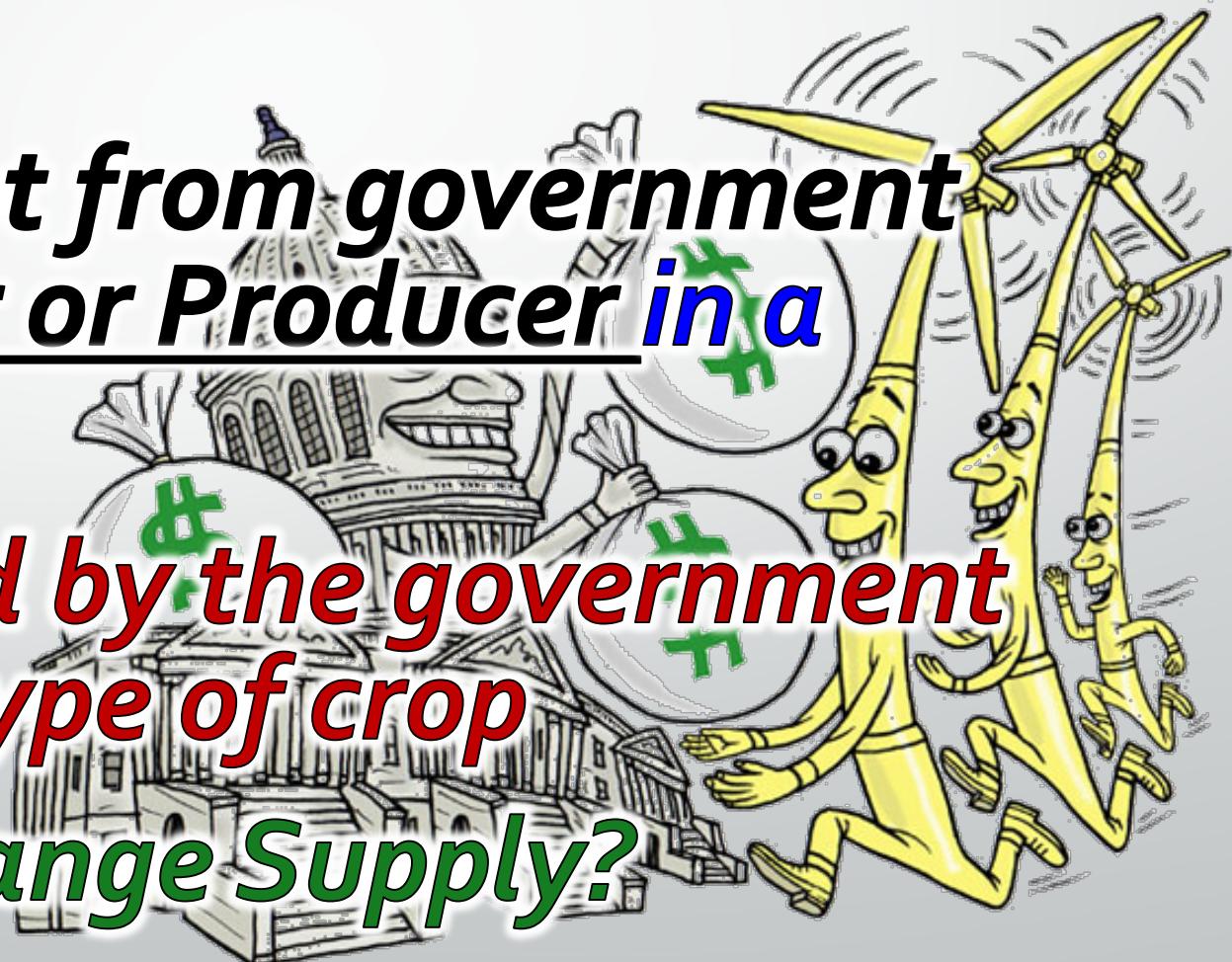
• 4 – Taxes and Subsidies

- **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...



- *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

S

Price

P
P1

Q

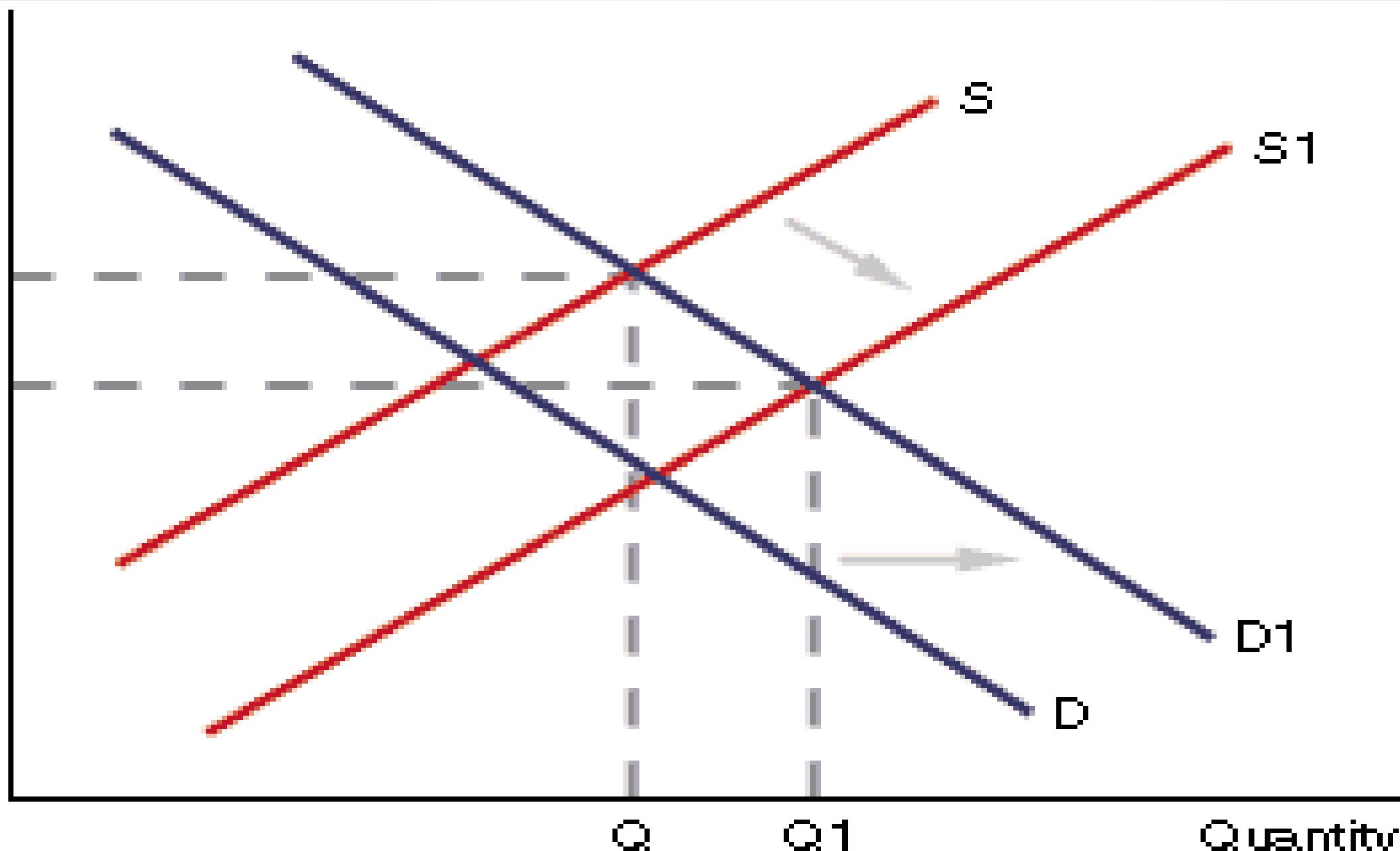
Q1

Quantity

S

S1

D1
D



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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