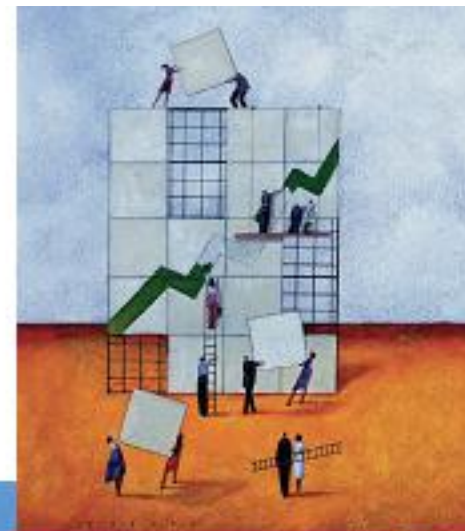


# Chapter 3



# Supply and Demand

# Product and Resource Markets

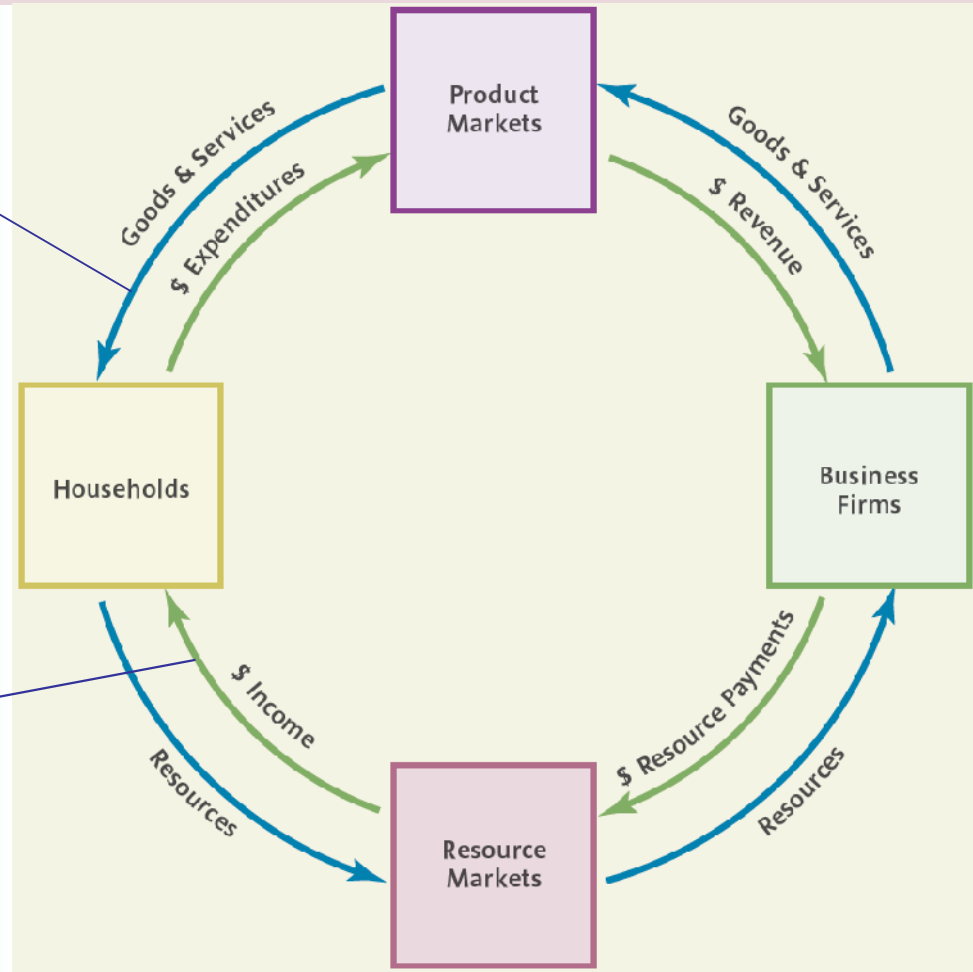
- **Figure 1** The Circular Flow Model

## Flow of goods and resources

- Resource market
  - Households sell resources
  - Firms buy resources to produce goods and services
- Product Market
  - Firms sell goods and services to households

## Money flows

- Firms – pay the resource owners
- Households – receive income for resources (to buy goods and services )

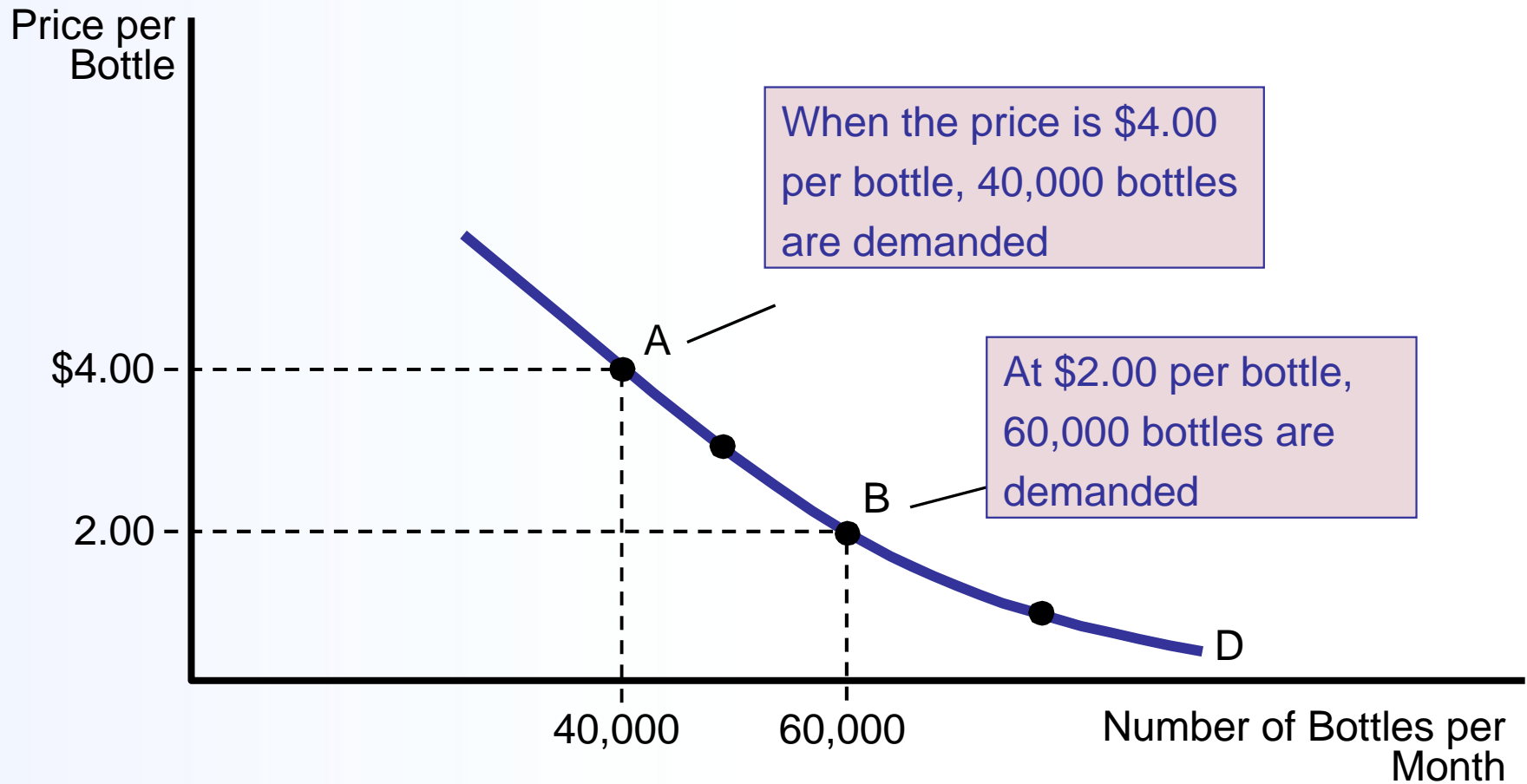


# Table 1: Demand Schedule for Maple Syrup in the U.S.

Price (per bottle)	Quantity Demanded (bottles per month)
\$1.00	75,000
\$2.00	60,000
\$3.00	50,000
\$4.00	40,000
\$5.00	35,000

# The Demand Curve

- **Figure 2** The Demand Curve – movement along the demand curve

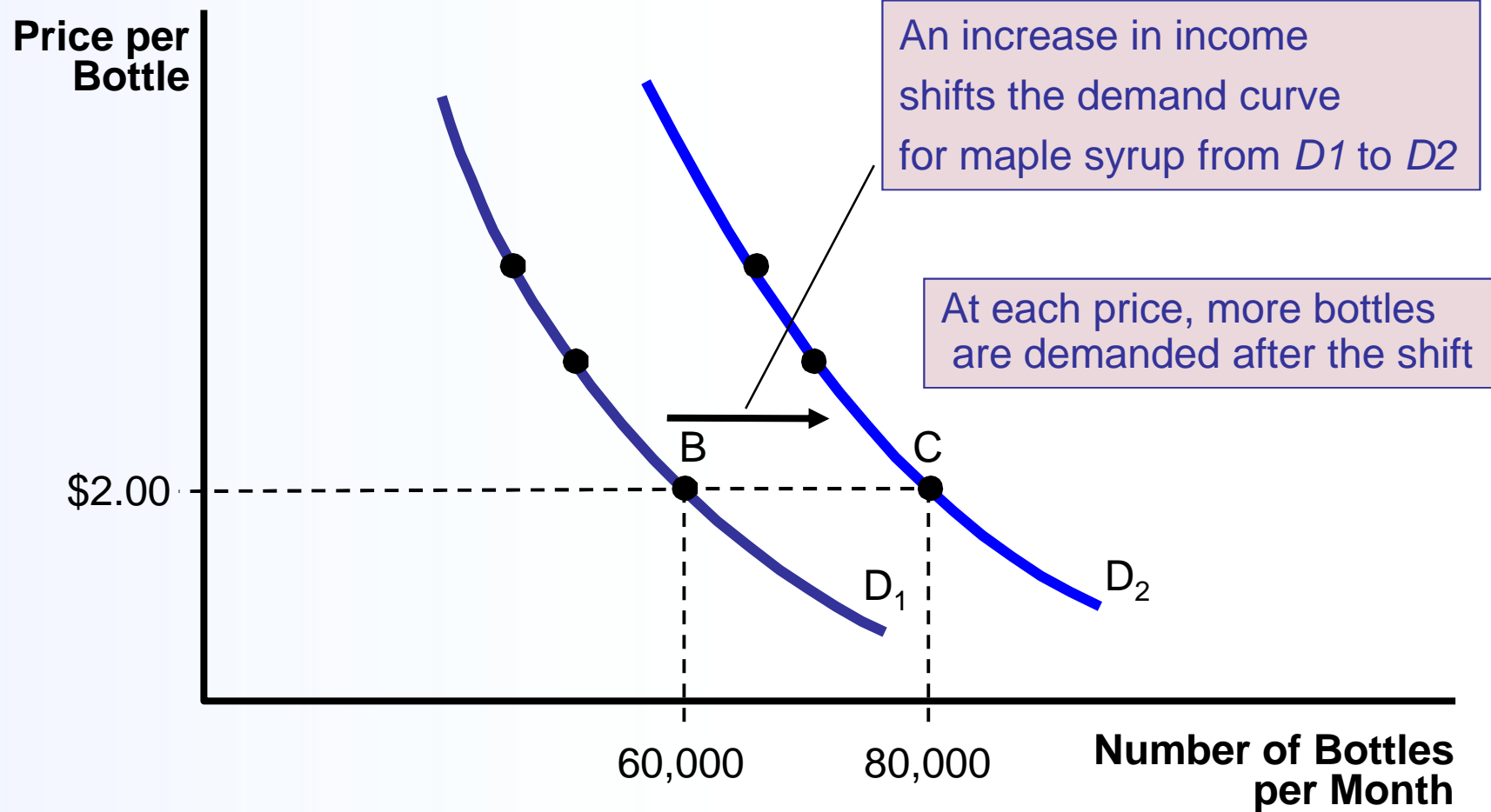


## Table 2: Increase in Demand for Maple Syrup in the U.S.

Price (per bottle)	Original Quantity Demanded (bottles per month)	New Quantity Demanded After Increase in Income (bottles per month)
\$1.00	75,000	95,000
\$2.00	60,000	80,000
\$3.00	50,000	70,000
\$4.00	40,000	60,000
\$5.00	35,000	55,000

# The Demand Curve

- **Figure 3** A Shift of the Demand Curve

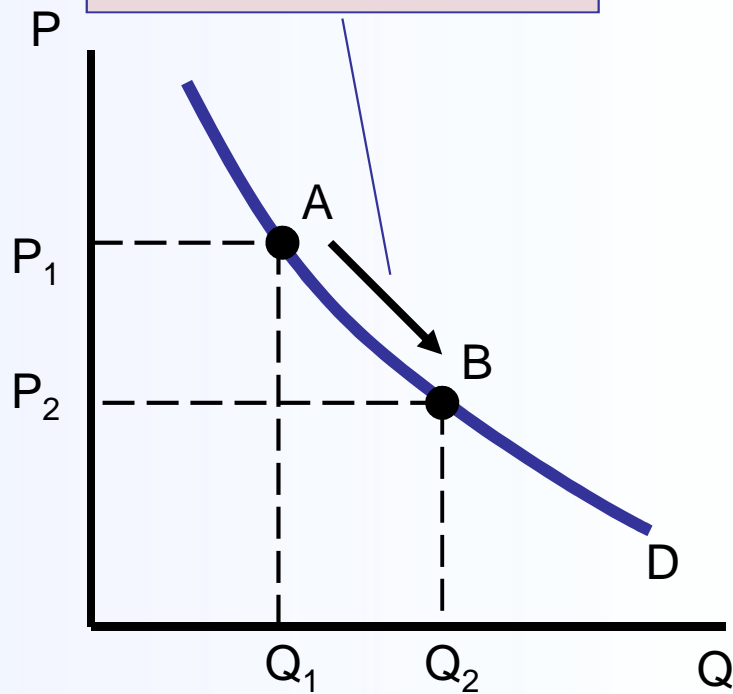


# The Demand Curve

- Figure 4 The Demand Curve – A summary

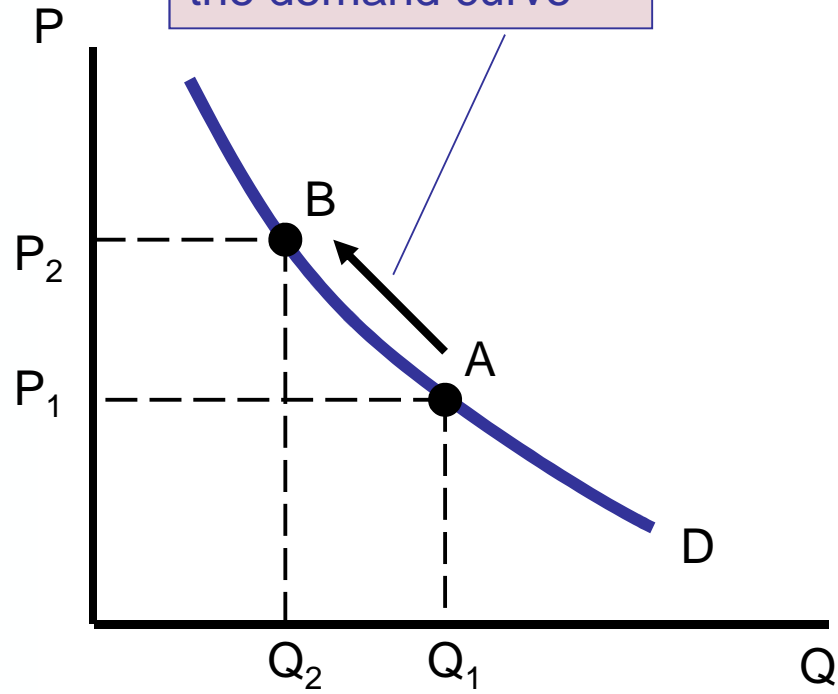
## a) Price

Move rightward along the demand curve



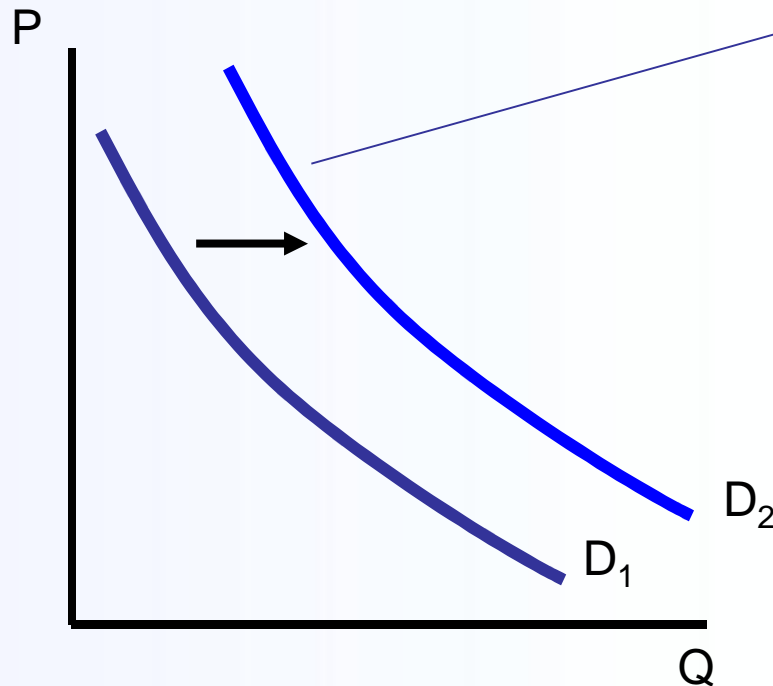
## b) Price

Move leftward along the demand curve



# The Demand Curve

- **Figure 4** The Demand Curve – A summary

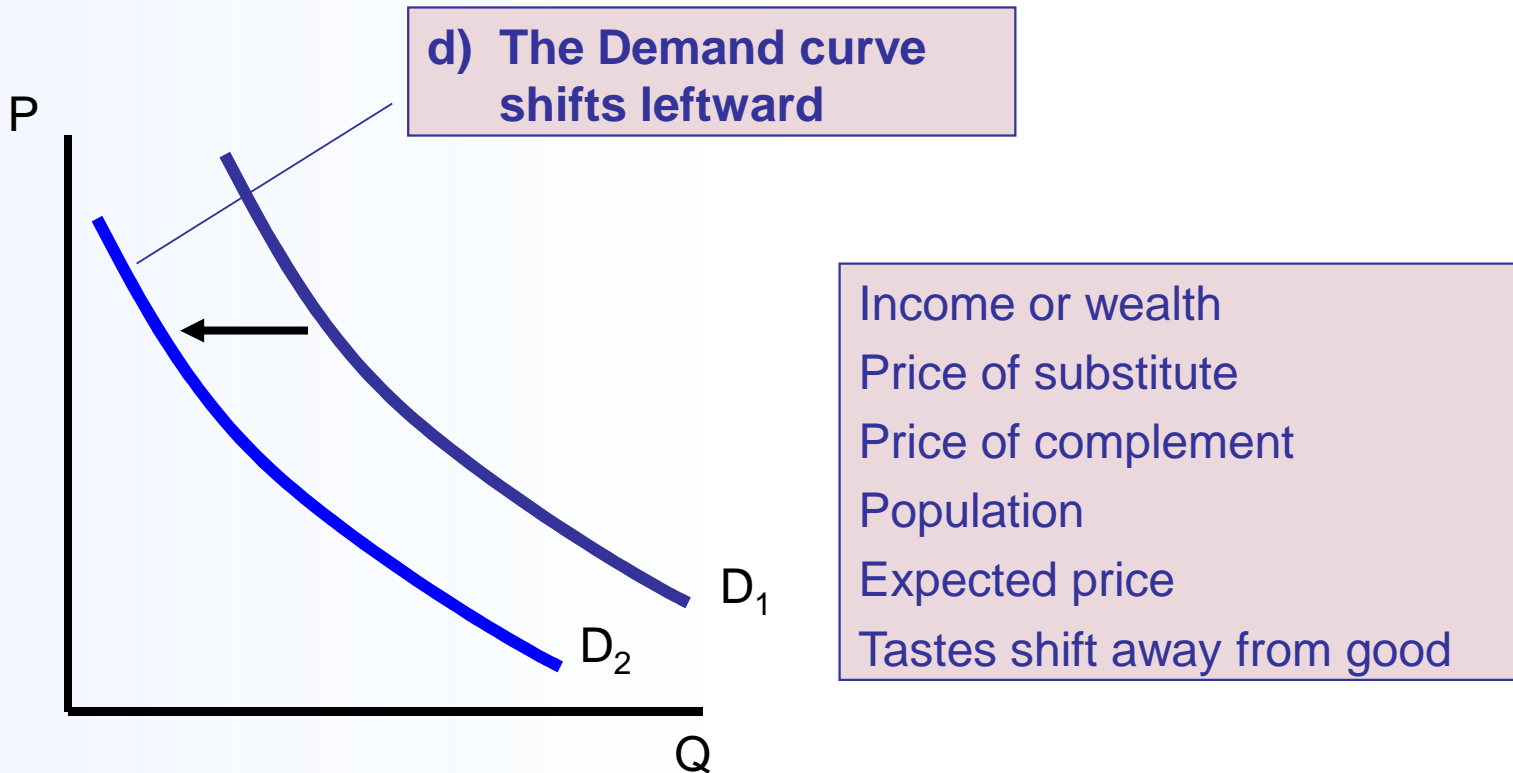


**c) The Demand curve shifts rightward**

Income or wealth  
Price of substitute  
Price of complement  
Population  
Expected price  
Tastes shift toward good

# The Demand Curve

- **Figure 4** The Demand Curve – A summary

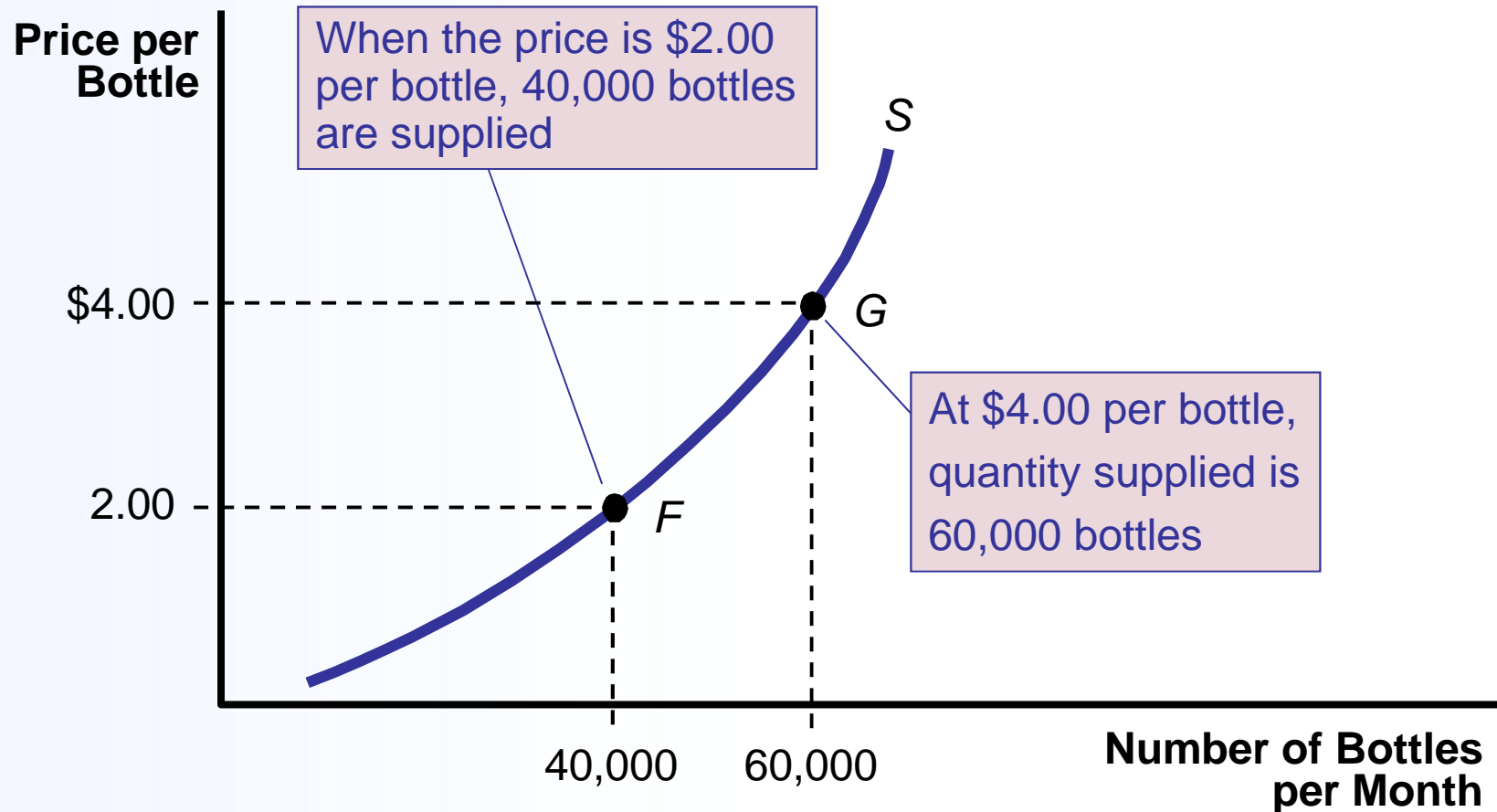


## Table 3: Supply Schedule for Maple Syrup in the U.S.

Price (per bottle)	Quantity Supplied (bottles per month)
\$1.00	25,000
\$2.00	40,000
\$3.00	50,000
\$4.00	60,000
\$5.00	65,000

# The Supply Curve

- **Figure 5** The Supply Curve – movement along the supply curve

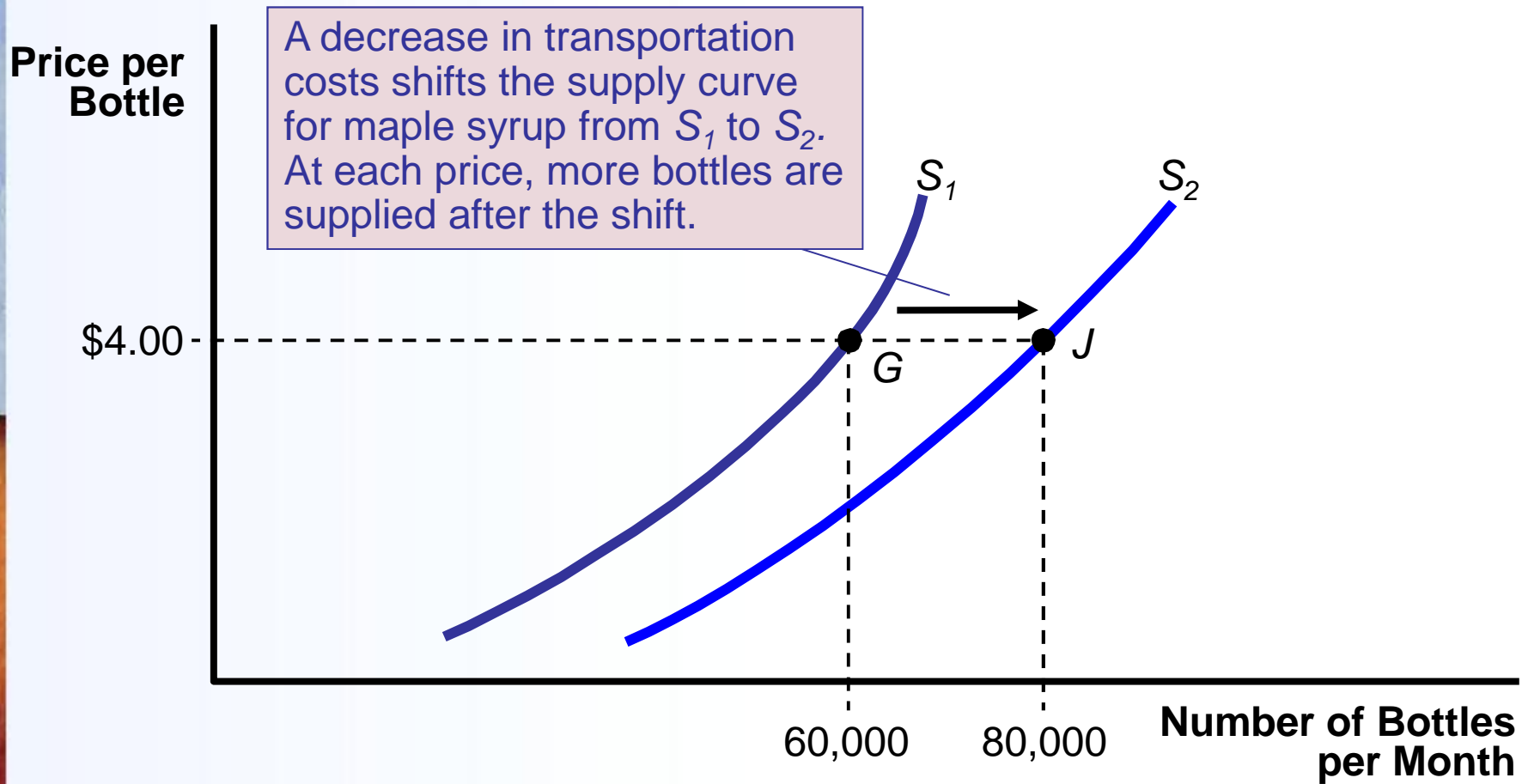


## Table 4: Increase in Supply of Maple Syrup in the U.S.

Price (per bottle)	Original Quantity Supplied (bottles/month)	Quantity Supplied After Decrease in Transportation Cost
\$1.00	25,000	45,000
\$2.00	40,000	60,000
\$3.00	50,000	70,000
\$4.00	60,000	80,000
\$5.00	65,000	90,000

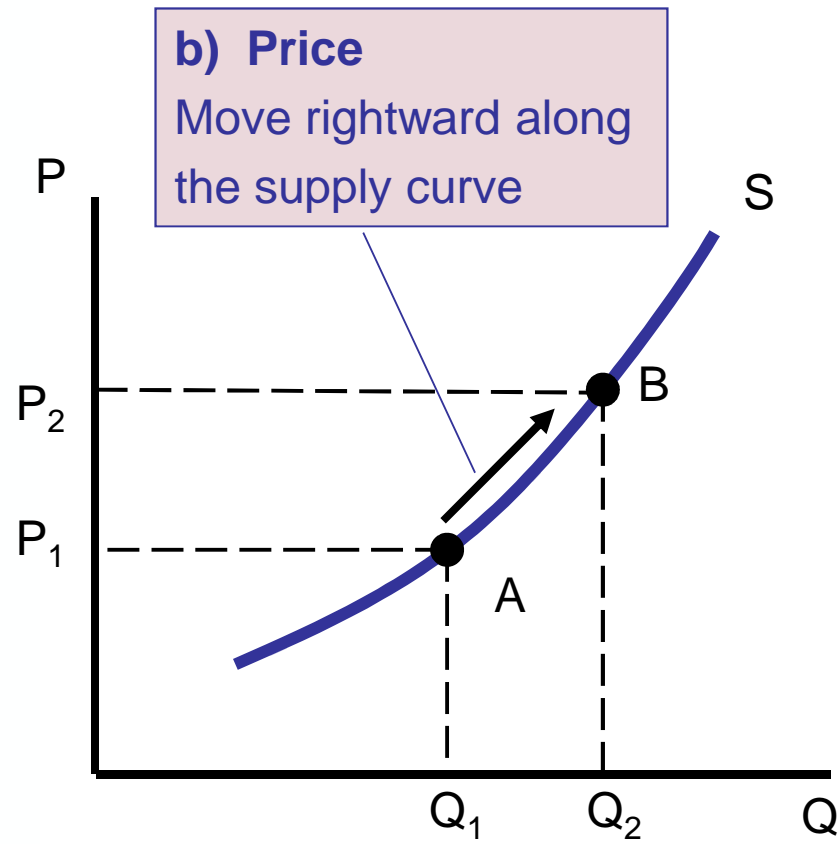
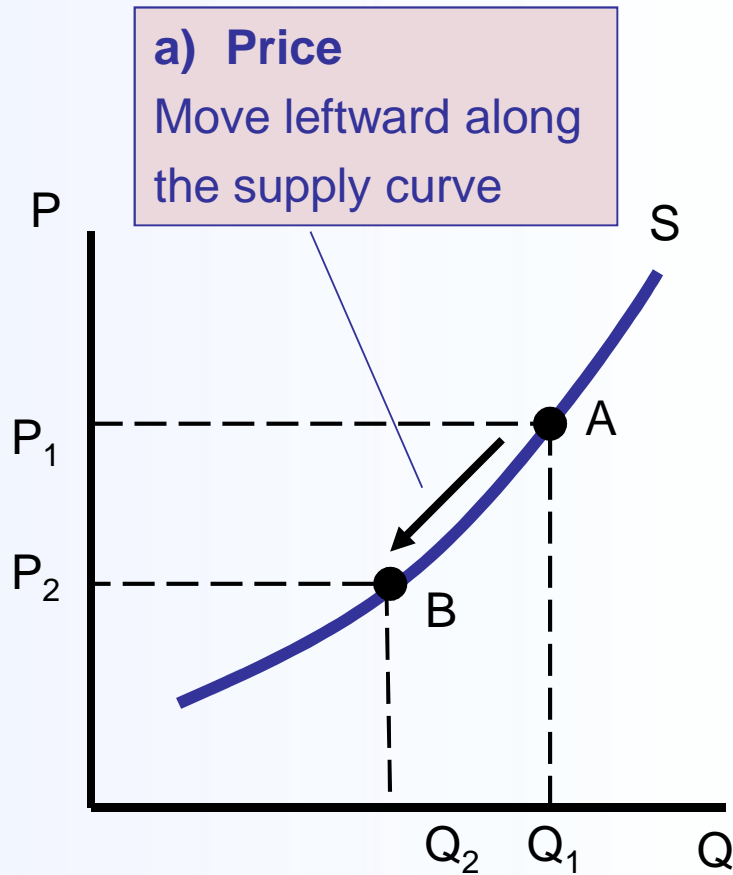
# Shifts of the Supply Curve

- **Figure 6** A Shift of the Supply Curve



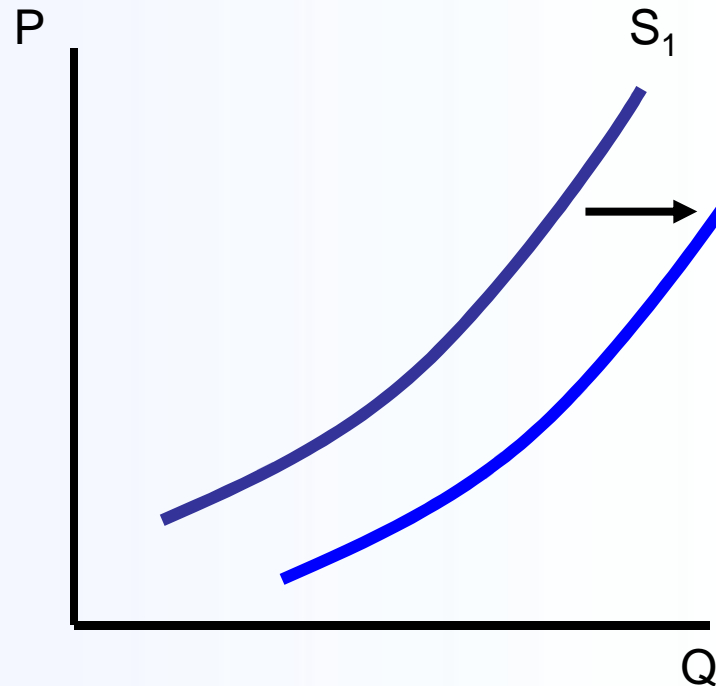
# The Supply Curve

- Figure 7 The Supply Curve – A summary



# The Supply Curve

- **Figure 7** The Supply Curve – A summary

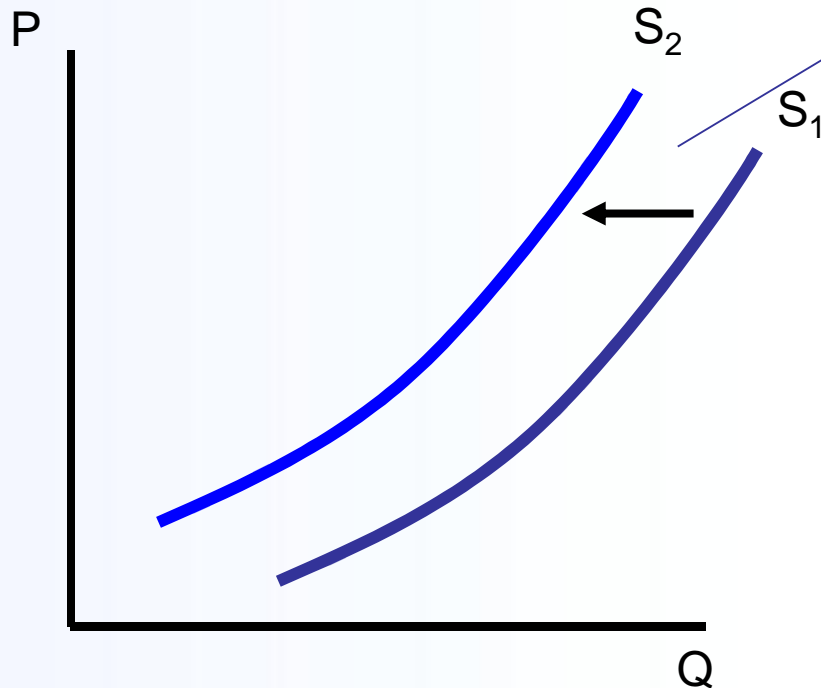


**c) The Supply curve shifts rightward**

Price of input  
Price of alternatives  
Number of firms  
Expected price  
Technological advance  
Favorable weather

# The Supply Curve

- **Figure 7** The Supply Curve – A summary



d) The Supply curve shifts leftward

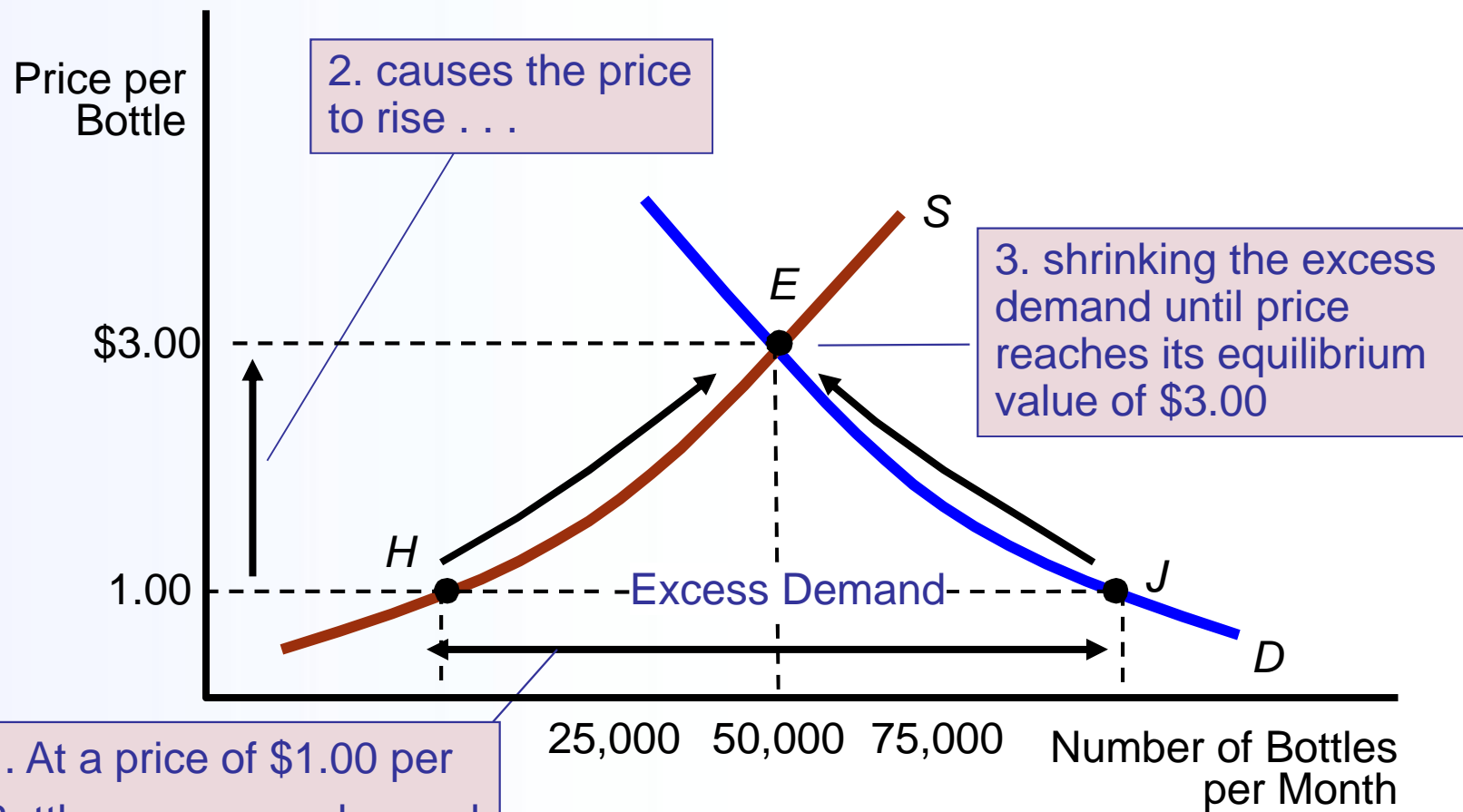
Price of input  
Price of alternatives  
Number of firms  
Expected price  
Unfavorable weather

## Table 5: Finding the Market Equilibrium

Price (per bottle)	Quantity Demanded (bottles per month)	Quantity Supplied (bottles per month)	Excess Demand or Supply?	Consequence
\$1.00	75,000	25,000	Excess Demand	Price will Rise
\$2.00	60,000	40,000	Excess Demand	Price will Rise
<b>\$3.00</b>	<b>50,000</b>	<b>50,000</b>	<b>Neither</b>	<b>No Change in price</b>
\$4.00	40,000	60,000	Excess Supply	Price will Fall
\$5.00	35,000	65,000	Excess Supply	Price will Fall

# Excess Demand

- **Figure 8** Excess Demand Causes Price to Rise



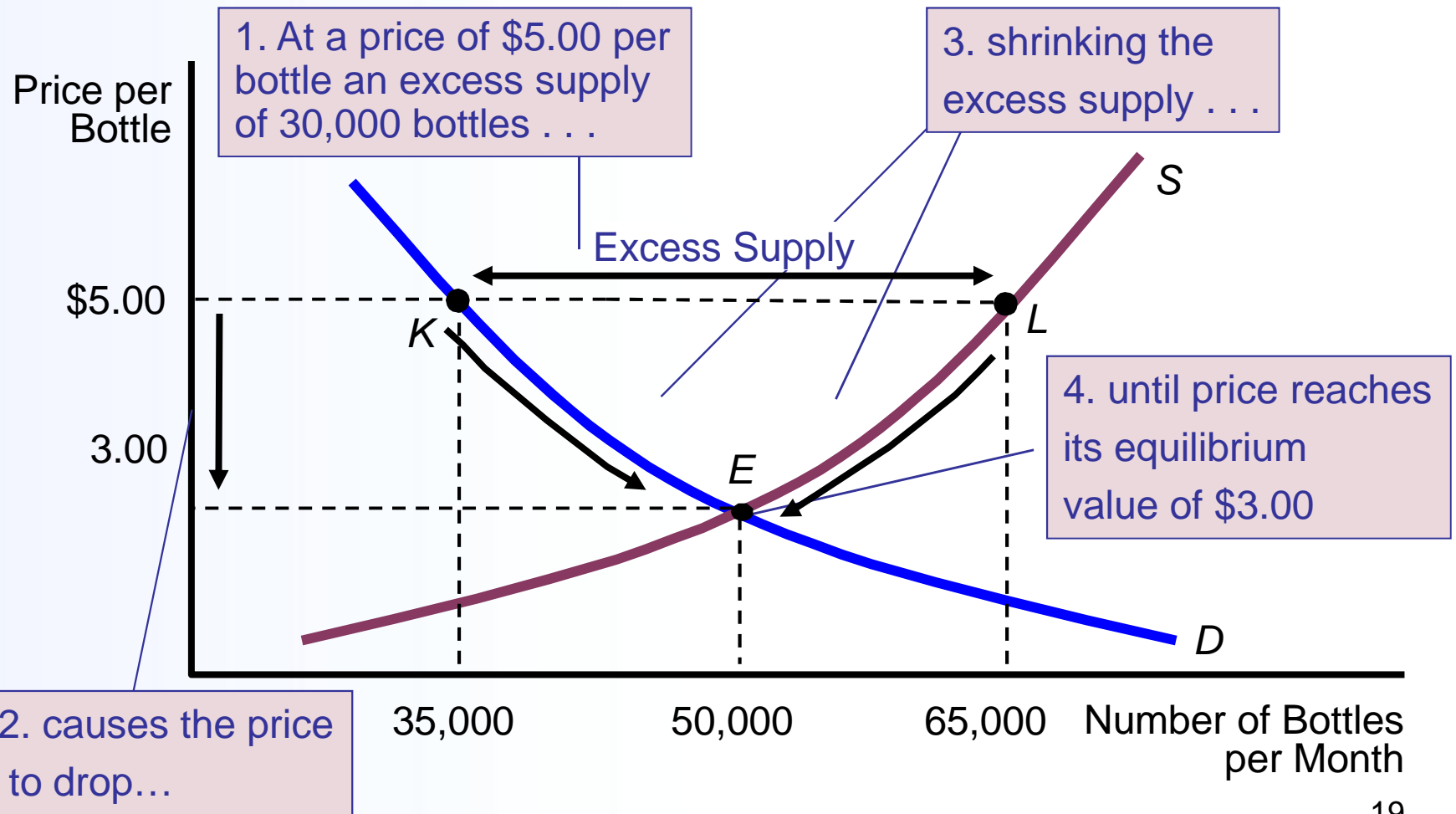
1. At a price of \$1.00 per Bottle, an excess demand of 50,000 bottles . . .

2. causes the price to rise . . .

3. shrinking the excess demand until price reaches its equilibrium value of \$3.00

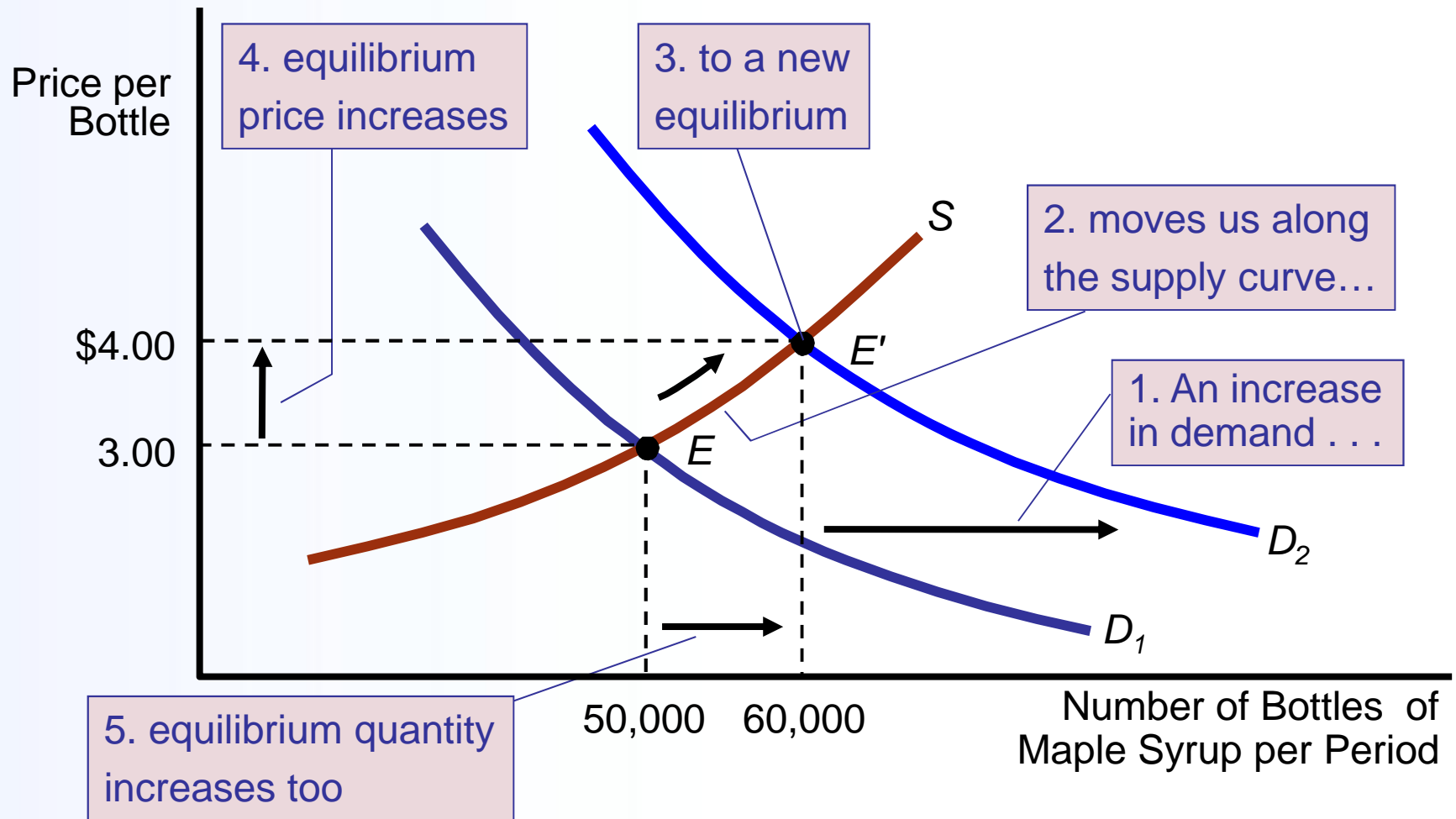
# Excess Supply

- **Figure 9** Excess Supply Causes Price to Fall



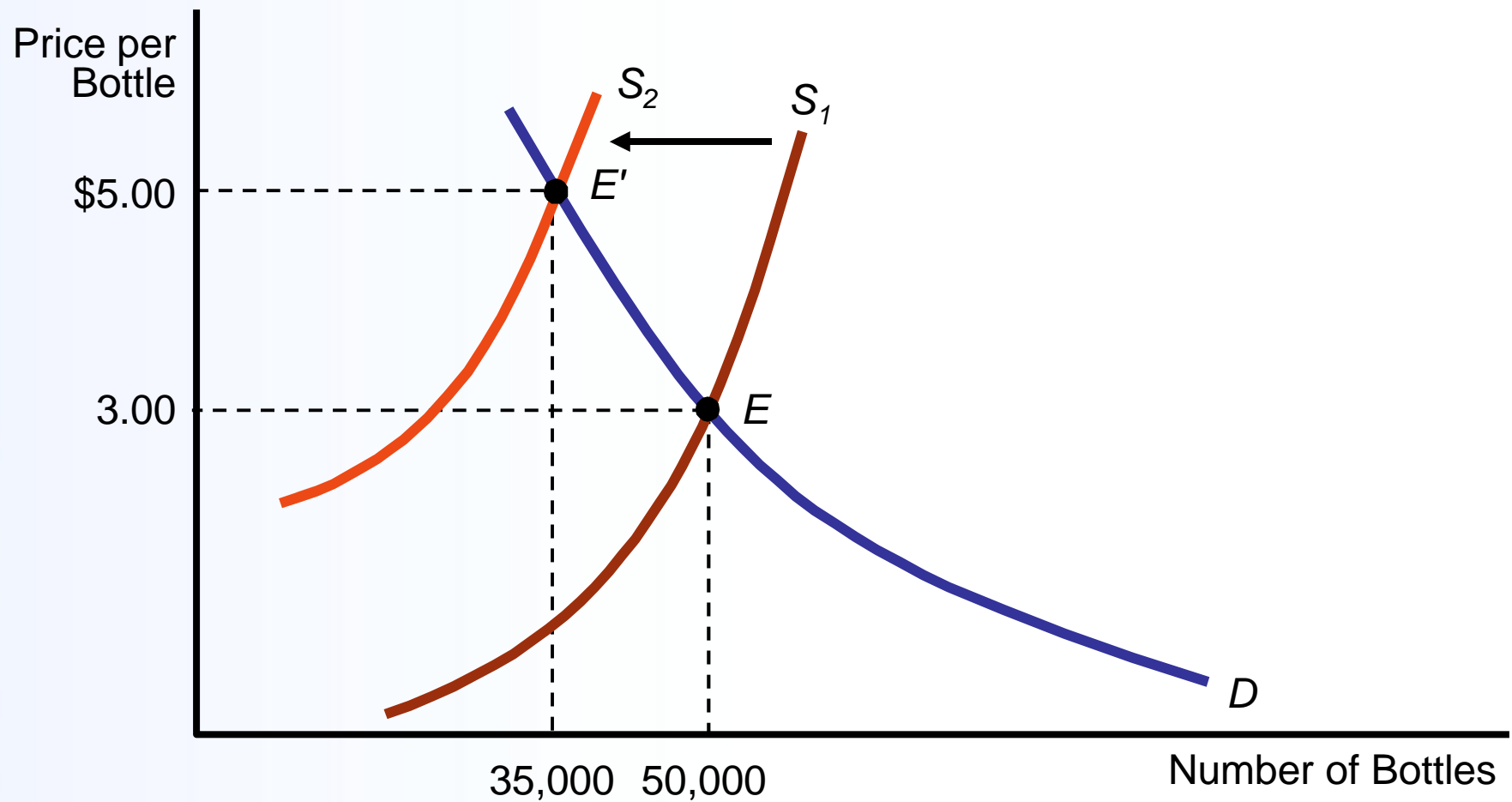
# Income rises, causing an increase in D

• **Figure 10** A Shift in Demand and a New Equilibrium



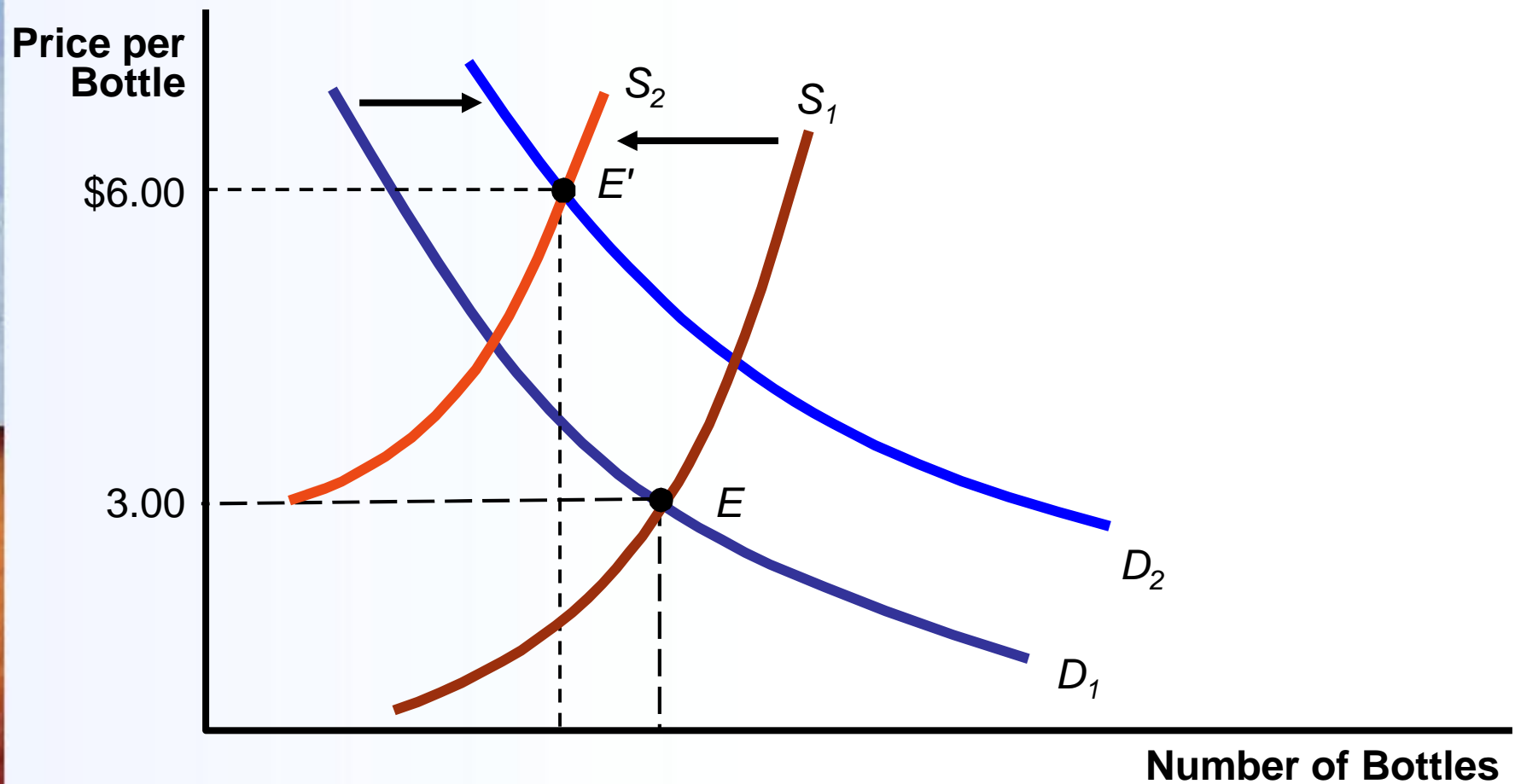
# Bad weather hits, decreasing the S

- **Figure 11** A Shift of Supply and a New Equilibrium



# Income rises and Bad weather hits

- **Figure 12** A Shift in Both Curves and a New Equilibrium

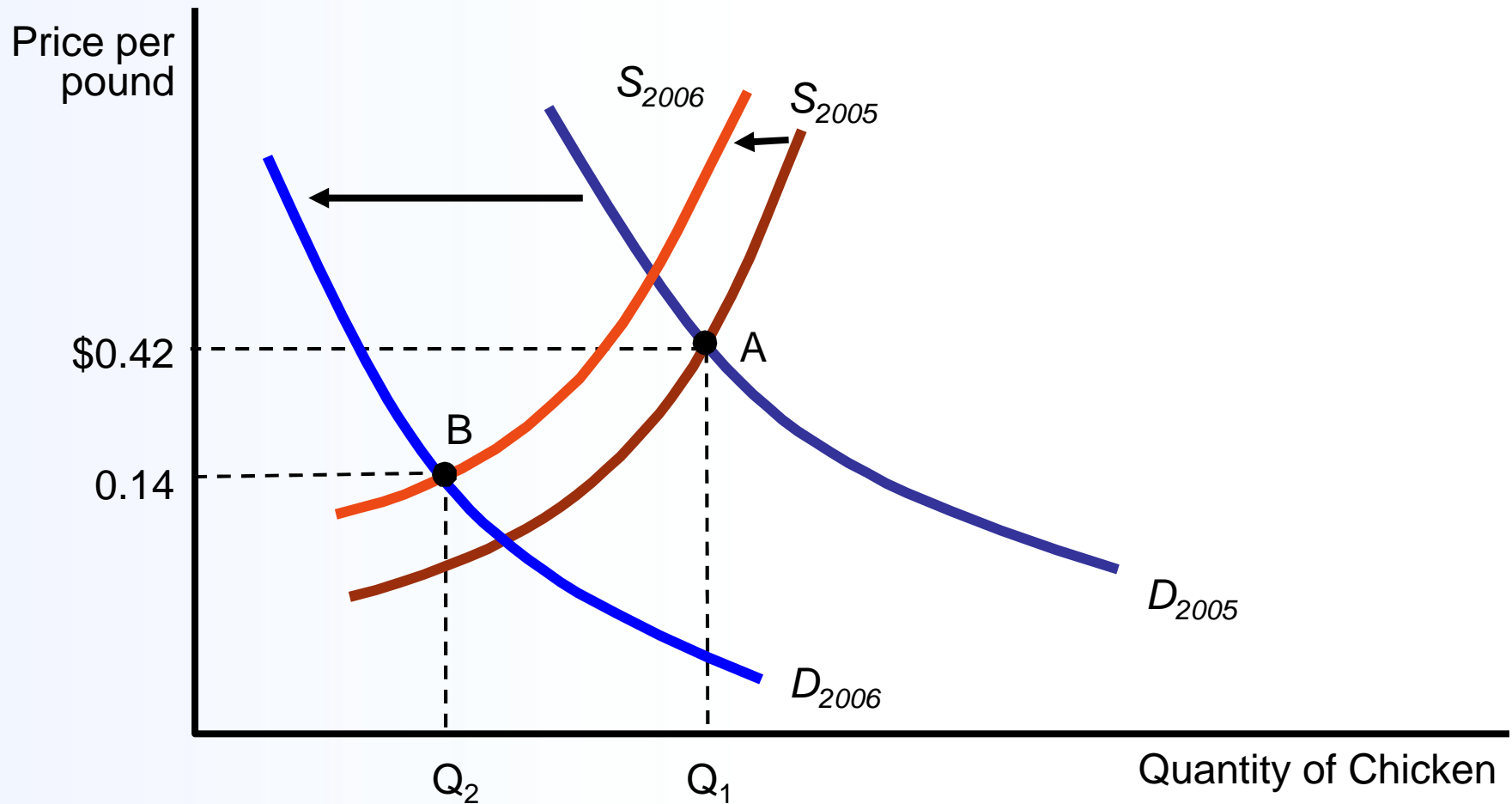


## Table 6: Effect of Supply and Demand Shifts on Equilibrium Price ( $P$ ) and Quantity ( $Q$ )

	Increase in Demand (Rightward Shift)	No Change in Demand	Decrease in Demand (Leftward Shift)
• Increase in Supply (Rightward Shift)	$P? Q\uparrow$	$P\downarrow Q\uparrow$	$P\downarrow Q?$
• No Change in Supply	$P\uparrow Q\uparrow$	No change in $P$ or $Q$	$P\downarrow Q\downarrow$
• Decrease in Supply (Leftward Shift)	$P\uparrow Q?$	$P\uparrow Q\downarrow$	$P? Q\downarrow$

# Avian Flu in Early 2006

• **Figure 13** The European Market for Chicken



# Avian Flu in Early 2006

- **Figure 14** The U.S. Market for Chicken

