

Chapter 3



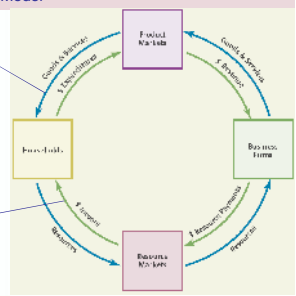
Supply and Demand

ECONOMICS: Principles and Applications, 4e
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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)



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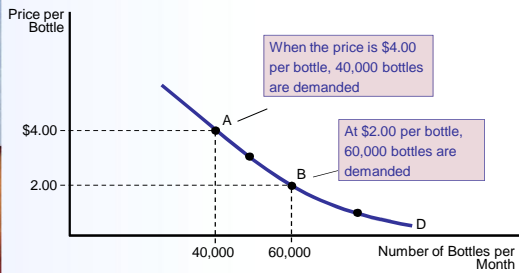
Table 1: Demand Schedule for Maple Syrup in the U.S.

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

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The Demand Curve

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



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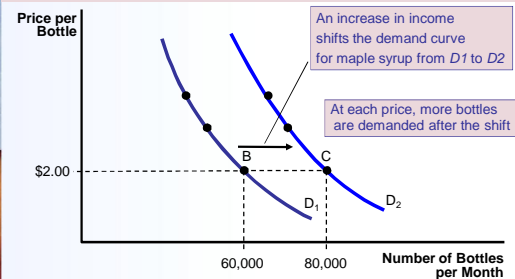
Table 2: Increase in Demand for Maple Syrup in the U.S.

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

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The Demand Curve

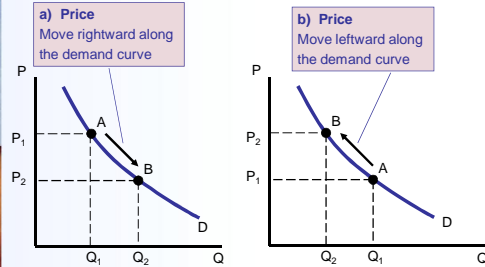
• **Figure 3** A Shift of the Demand Curve



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The Demand Curve

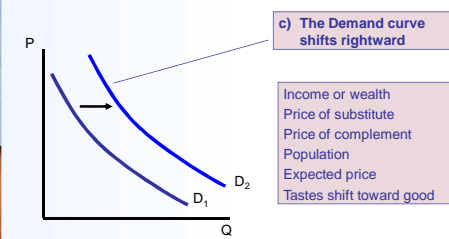
• Figure 4 The Demand Curve – A summary



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The Demand Curve

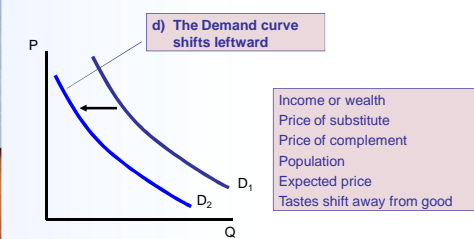
• Figure 4 The Demand Curve – A summary



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The Demand Curve

• Figure 4 The Demand Curve – A summary



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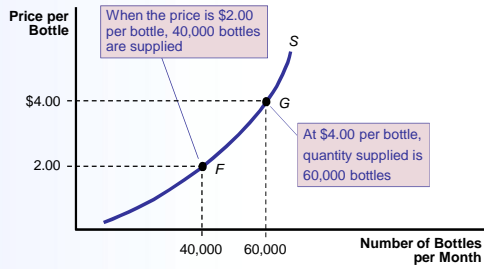
Table 3: Supply Schedule for Maple Syrup in the U.S.

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

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The Supply Curve

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

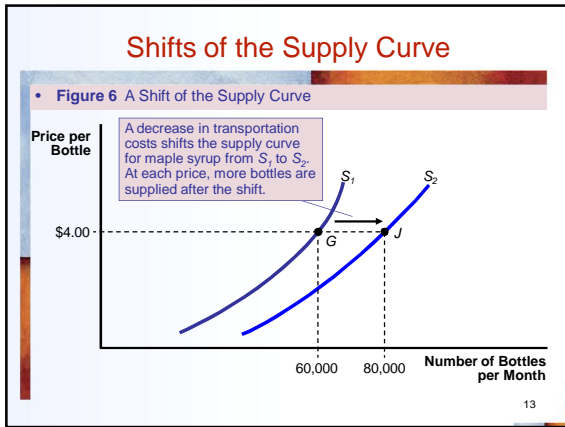


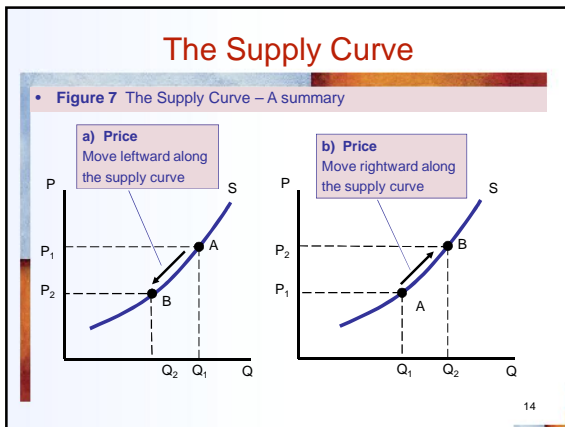
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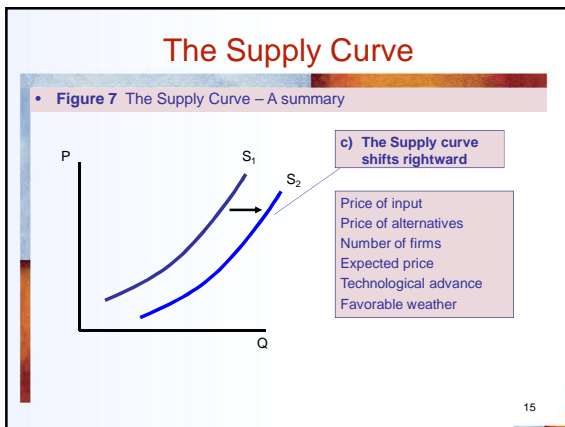
Table 4: Increase in Supply of Maple Syrup in the U.S.

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

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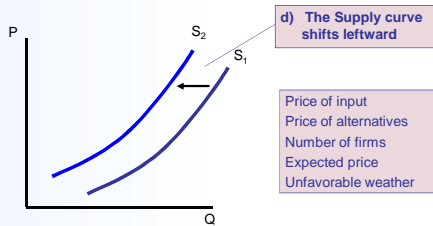






The Supply Curve

• Figure 7 The Supply Curve – A summary



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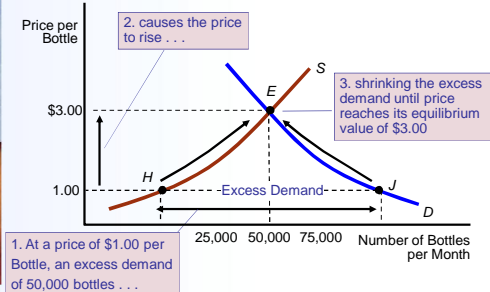
Table 5: Finding the Market Equilibrium

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
\$3.00	50,000	50,000	Neither	No Change in price
\$4.00	40,000	60,000	Excess Supply	Price will Fall
\$5.00	35,000	65,000	Excess Supply	Price will Fall

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Excess Demand

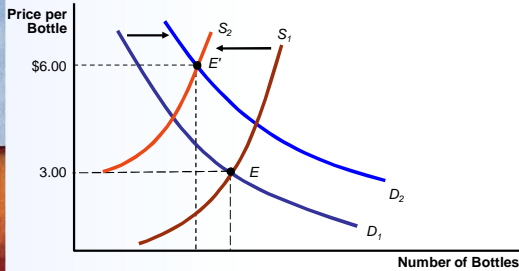
• Figure 8 Excess Demand Causes Price to Rise



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Income rises and Bad weather hits

• Figure 12 A Shift in Both Curves and a New Equilibrium



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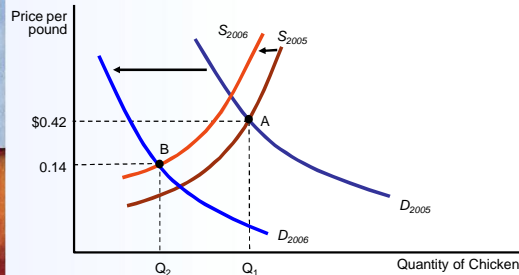
Table 6: Effect of Supply and Demand Shifts on Equilibrium Price (P) and Quantity (Q)

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

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Avian Flu in Early 2006

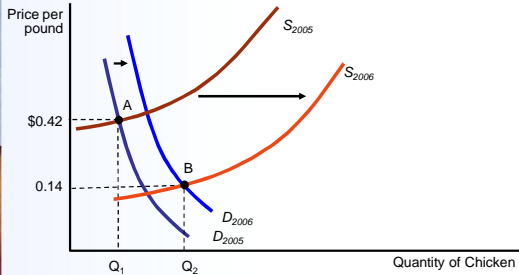
• Figure 13 The European Market for Chicken



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Avian Flu in Early 2006

• Figure 14 The U.S. Market for Chicken



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