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SUPPLY AND DEMAND I: HOW MARKETS WORK





4

The Market Forces of Supply and Demand

Figure 1 Catherine's Demand Schedule and Demand Curve

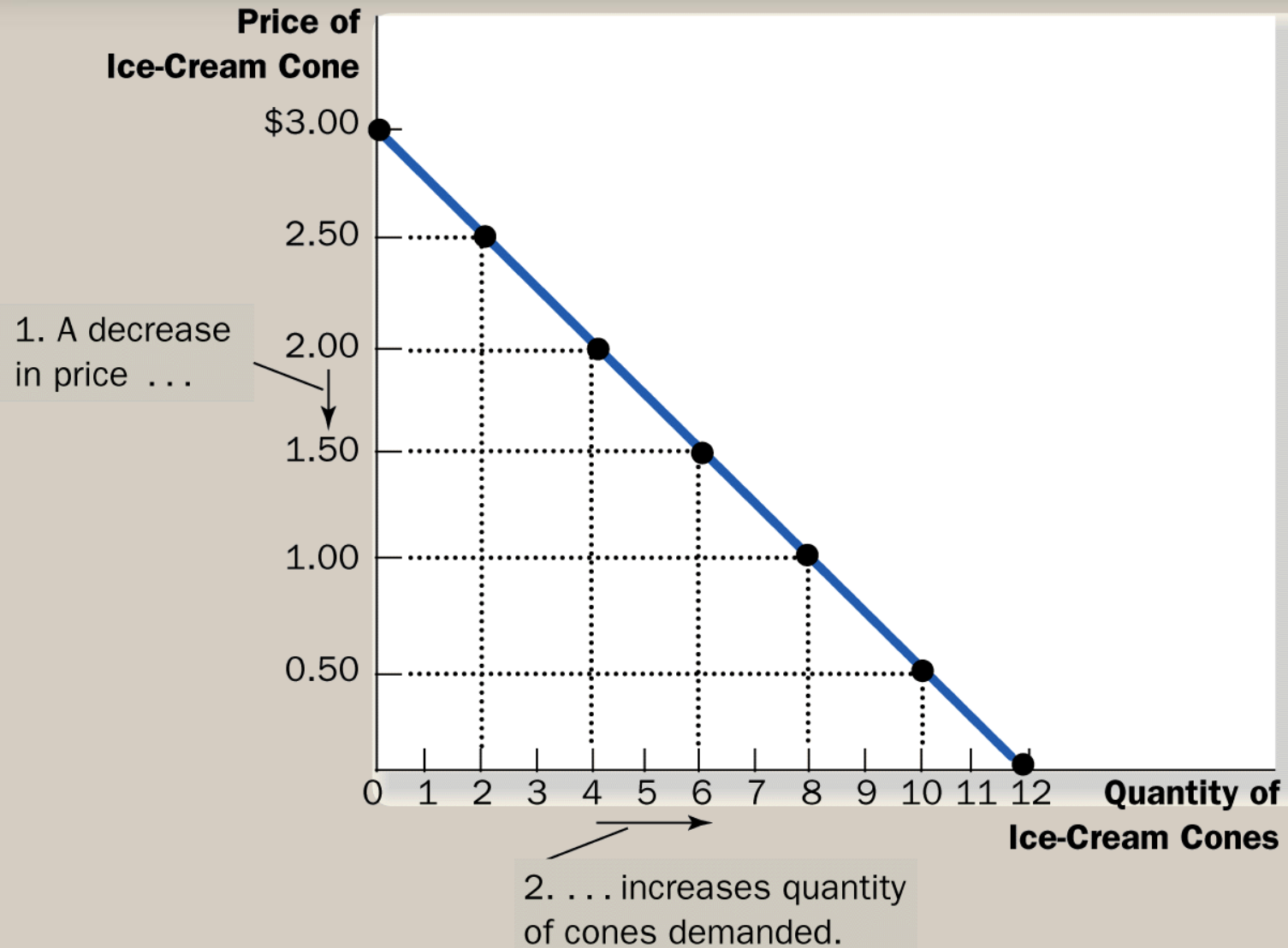


Figure 2 Market Demand as the Sum of Individual Demands

Catherine's Demand

+

Nicholas's Demand

=

Market Demand

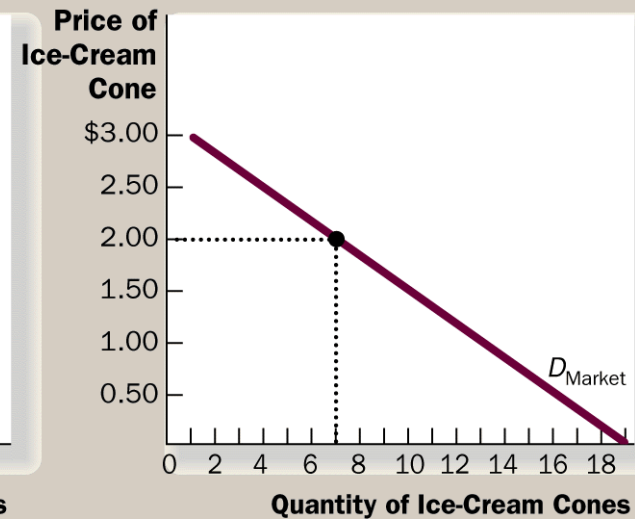
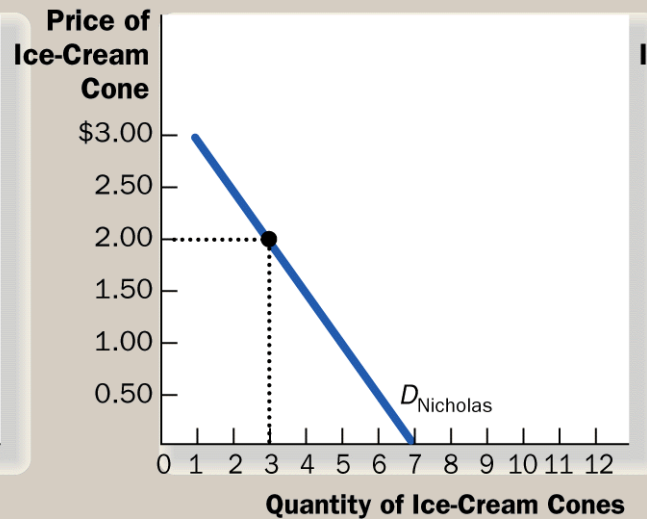
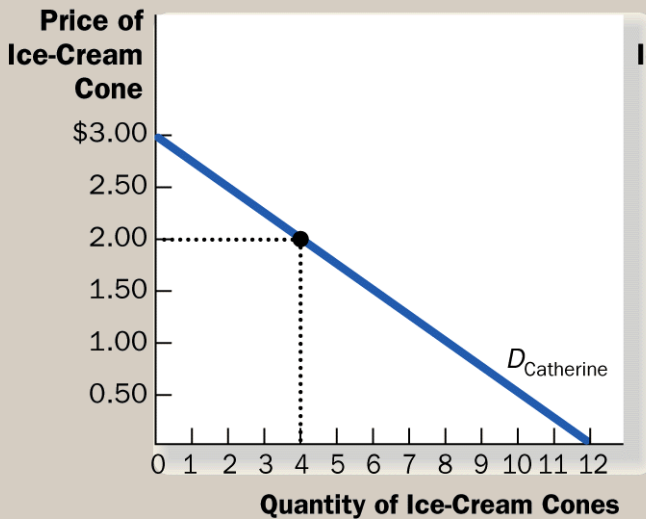


Figure 3 Shifts in the Demand Curve

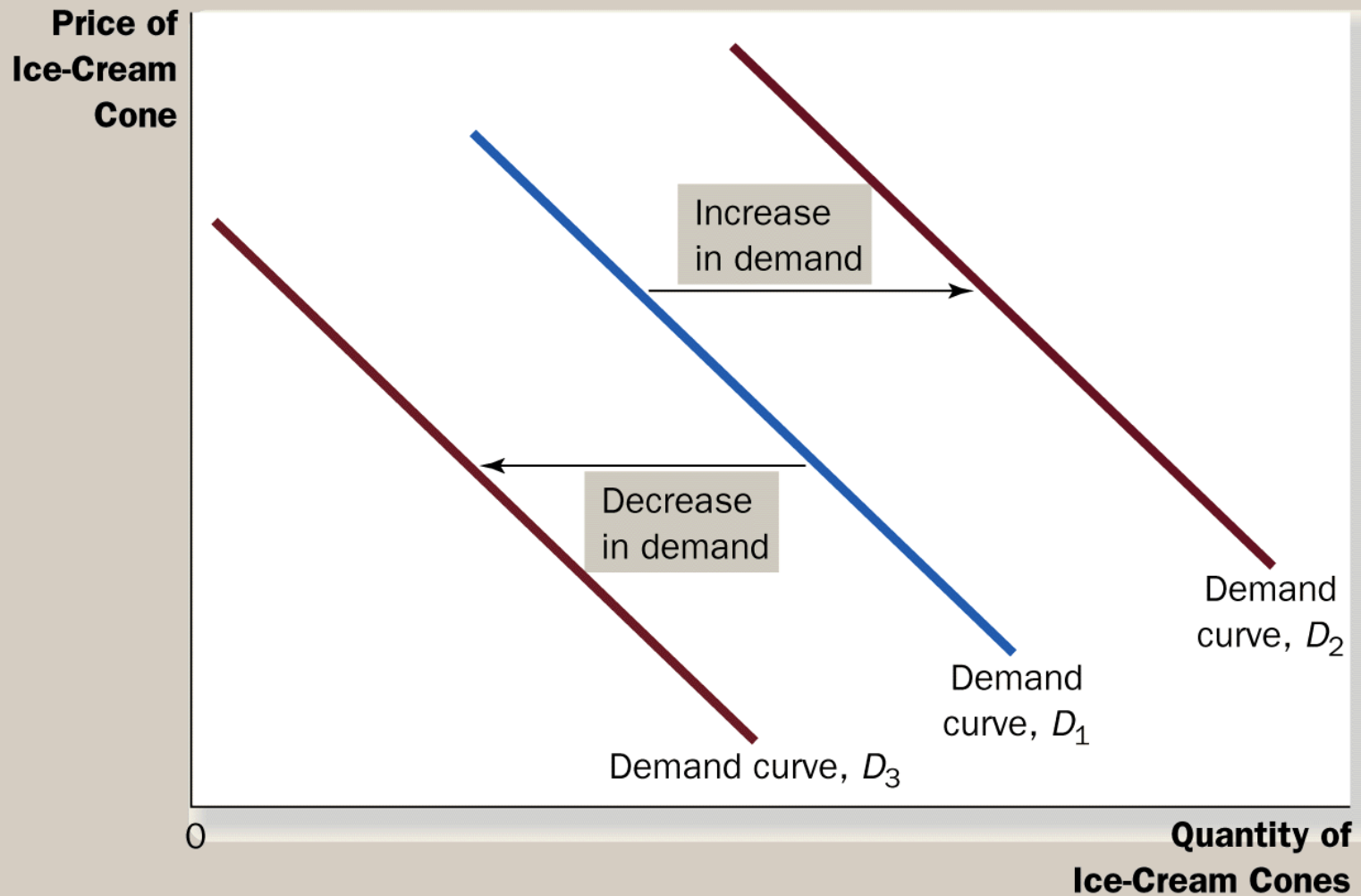
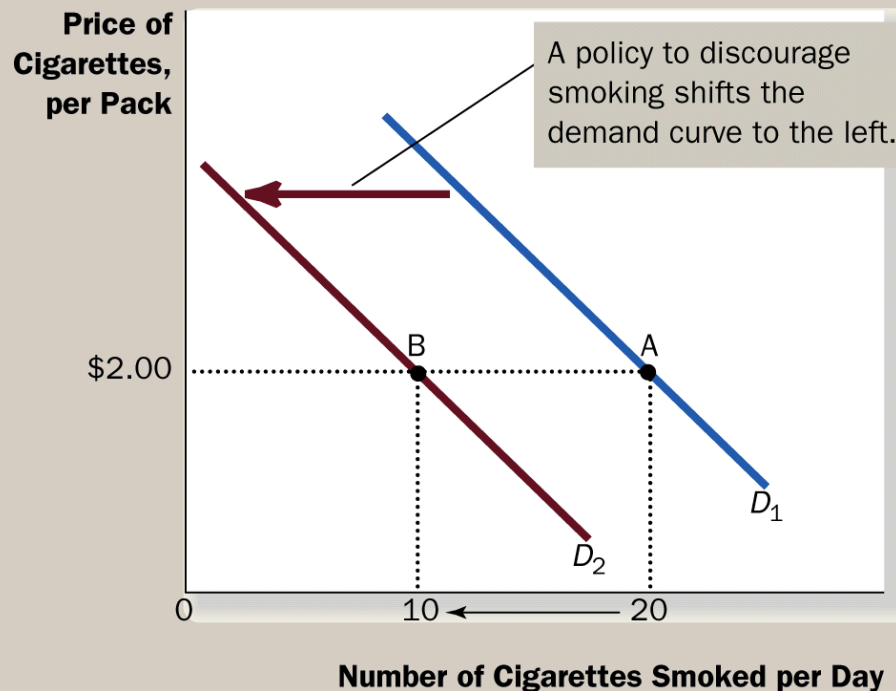


Table 1 Variables That Influence Buyers

Variable	A Change in This Variable . . .
Price	Represents a movement along the demand curve
Income	Shifts the demand curve
Prices of related goods	Shifts the demand curve
Tastes	Shifts the demand curve
Expectations	Shifts the demand curve
Number of buyers	Shifts the demand curve

Figure 4 Shifts in the Demand Curve versus Movements along the Demand Curve

(a) A Shift in the Demand Curve



(b) A Movement along the Demand Curve

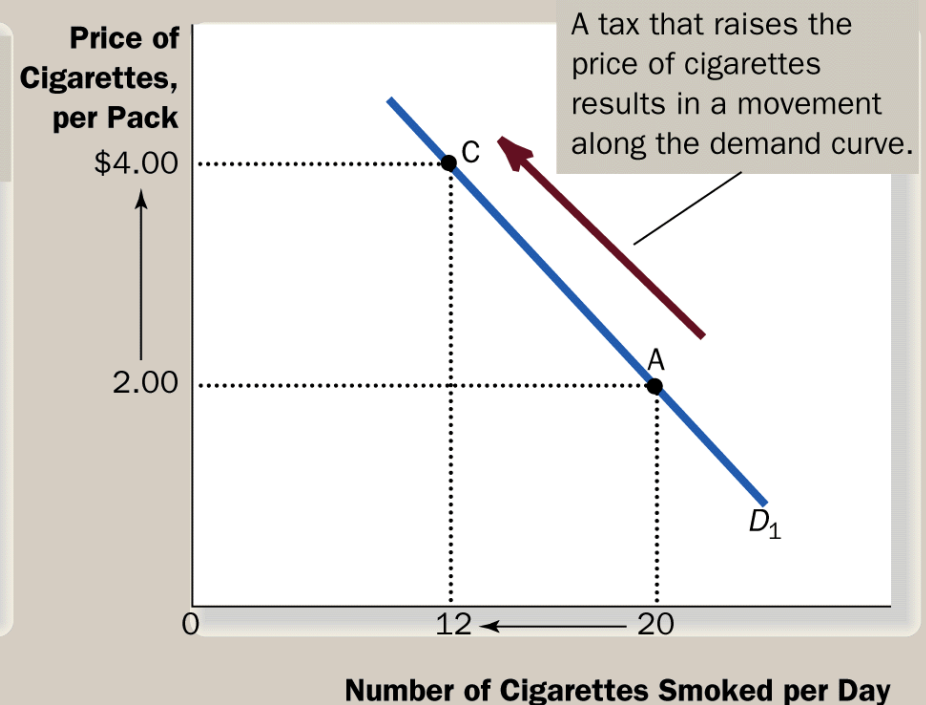


Figure 5 Ben's Supply Schedule and Supply Curve

Price of Ice-Cream Cone	Quantity of Cones Demanded
\$0.00	0
0.50	0
1.00	1
1.50	2
2.00	3
2.50	4
3.00	5

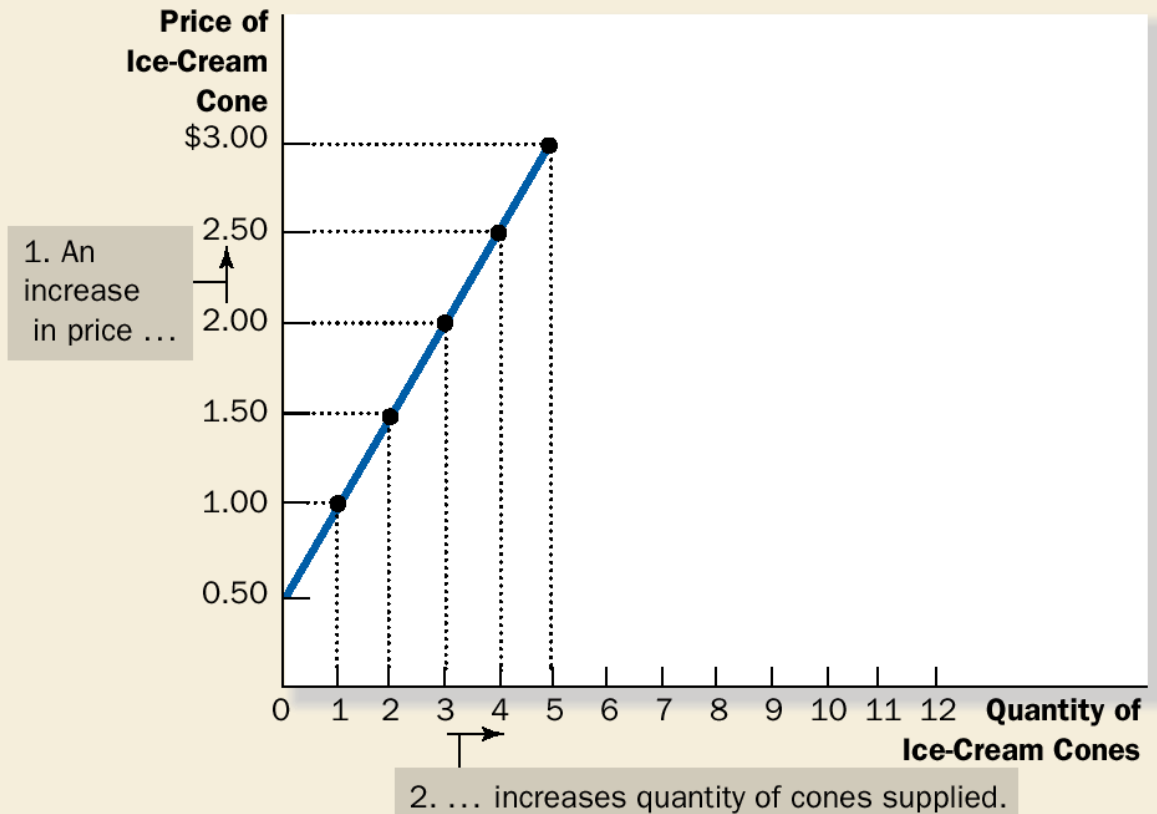
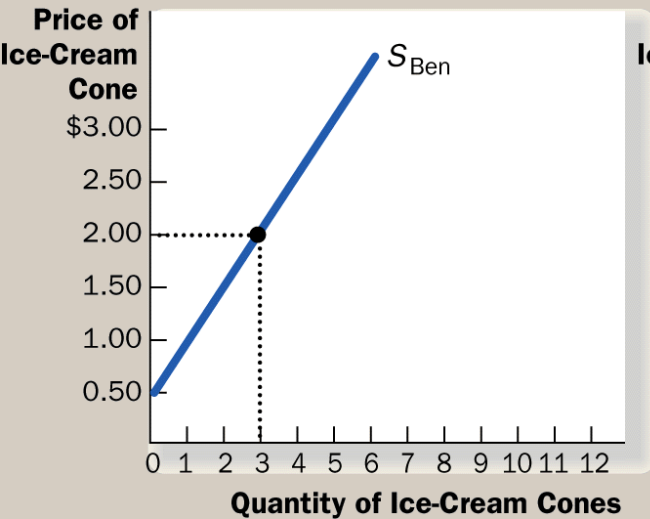


Figure 6 Market Supply as the Sum of Individual Supplies

Price of Ice-Cream Cone	Ben		Jerry		Market
\$0.00	0	+	0	=	0
0.50	0		0		0
1.00	1		0		1
1.50	2		2		4
2.00	3		4		7
2.50	4		6		10
3.00	5		8		13

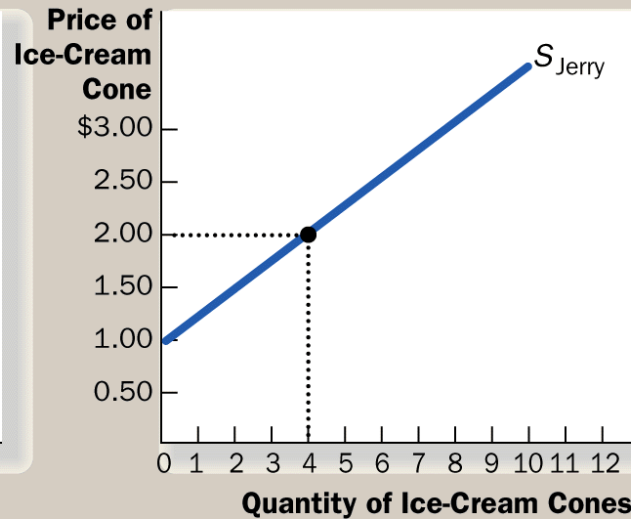
Figure 6 Market Supply as the Sum of Individual Supplies

Ben's Supply



+

Jerry's Supply



=

Market Supply

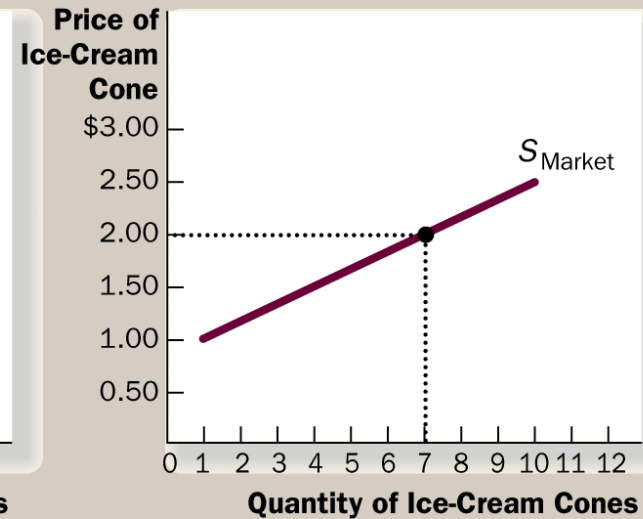


Figure 7 Shifts in the Supply Curve

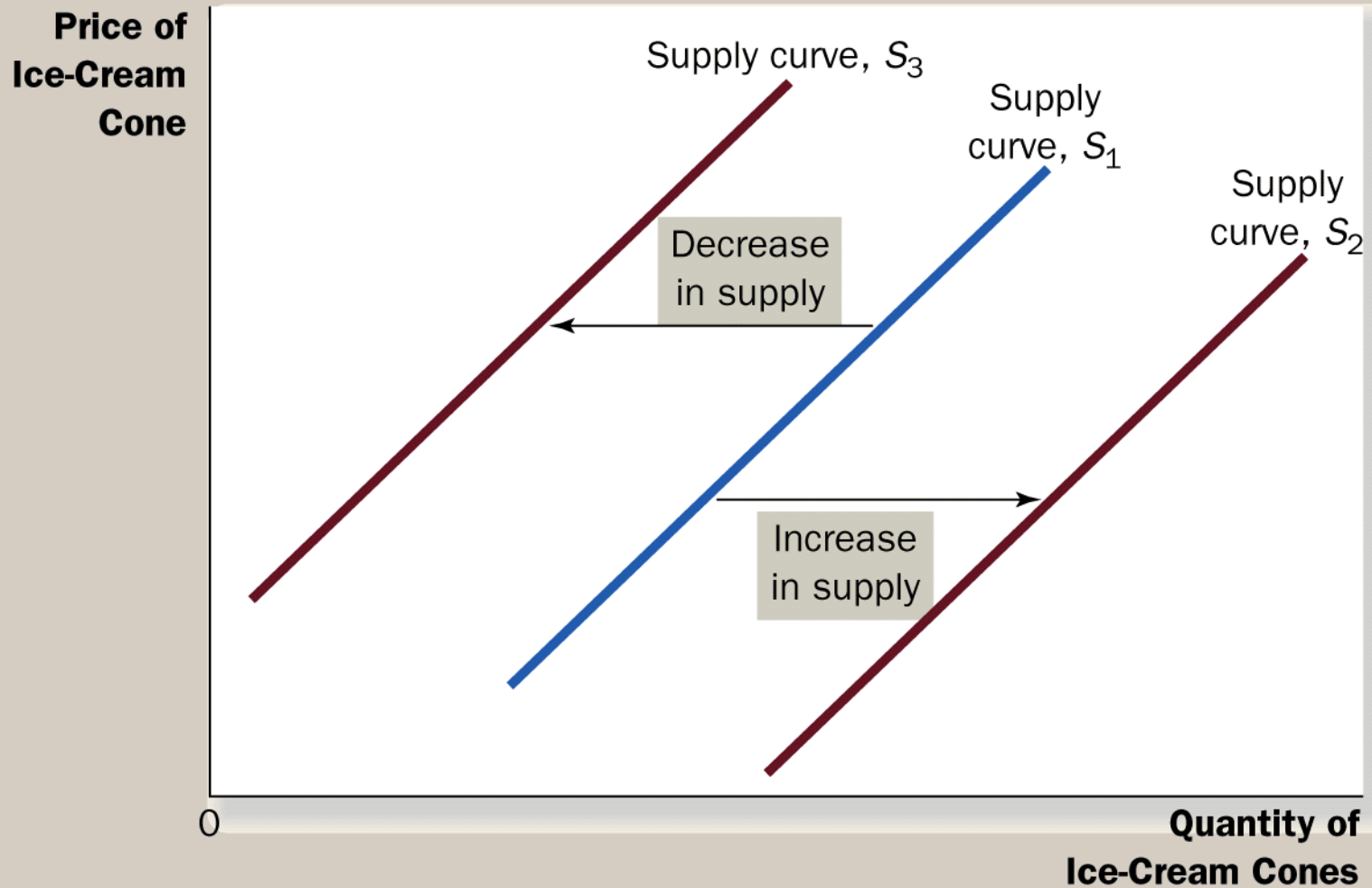


Table 2 Variables That Influence Sellers

Variable	A Change in This Variable . . .
Price	Represents a movement along the supply curve
Input prices	Shifts the supply curve
Technology	Shifts the supply curve
Expectations	Shifts the supply curve
Number of sellers	Shifts the supply curve

Figure 8 The Equilibrium of Supply and Demand

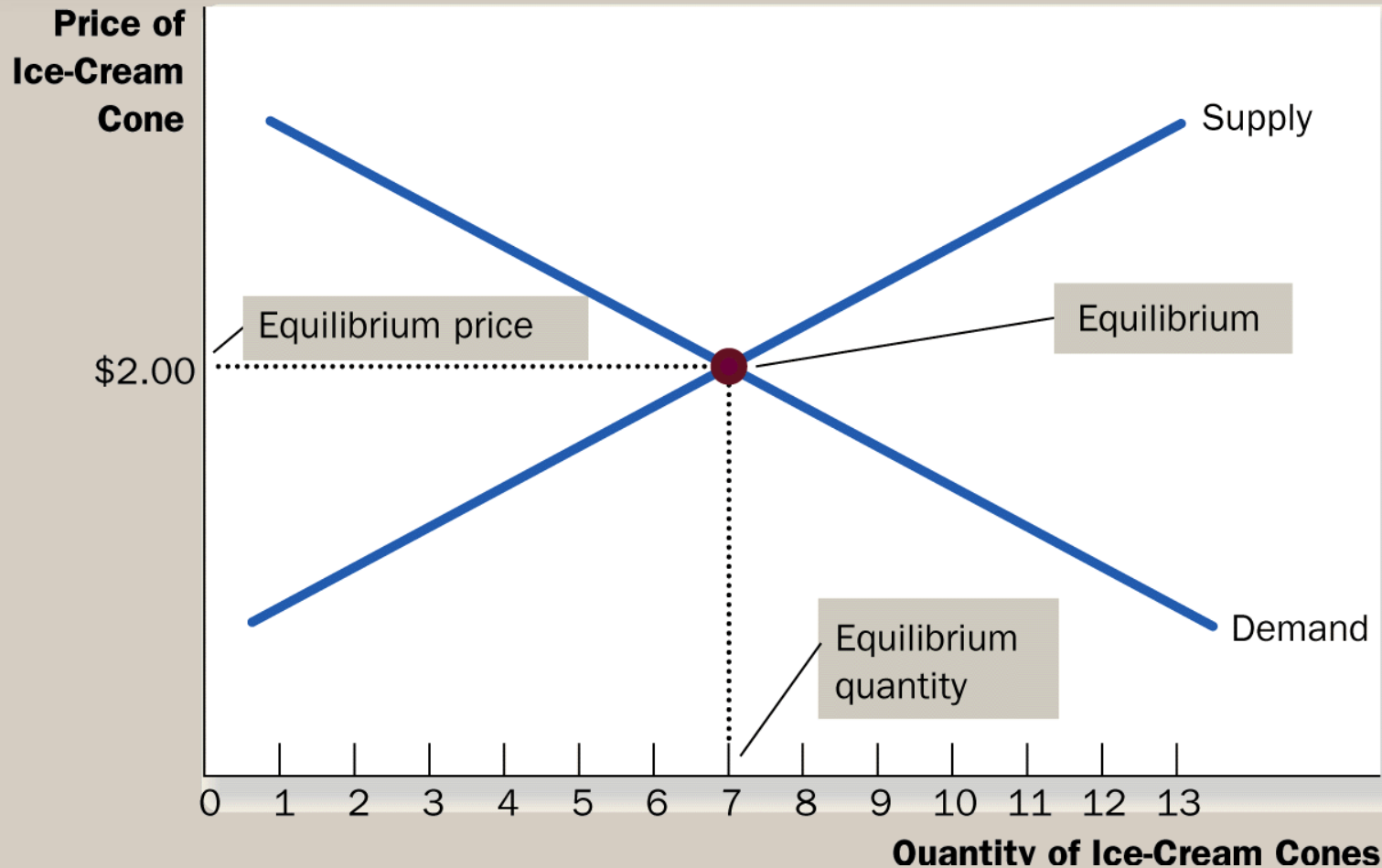
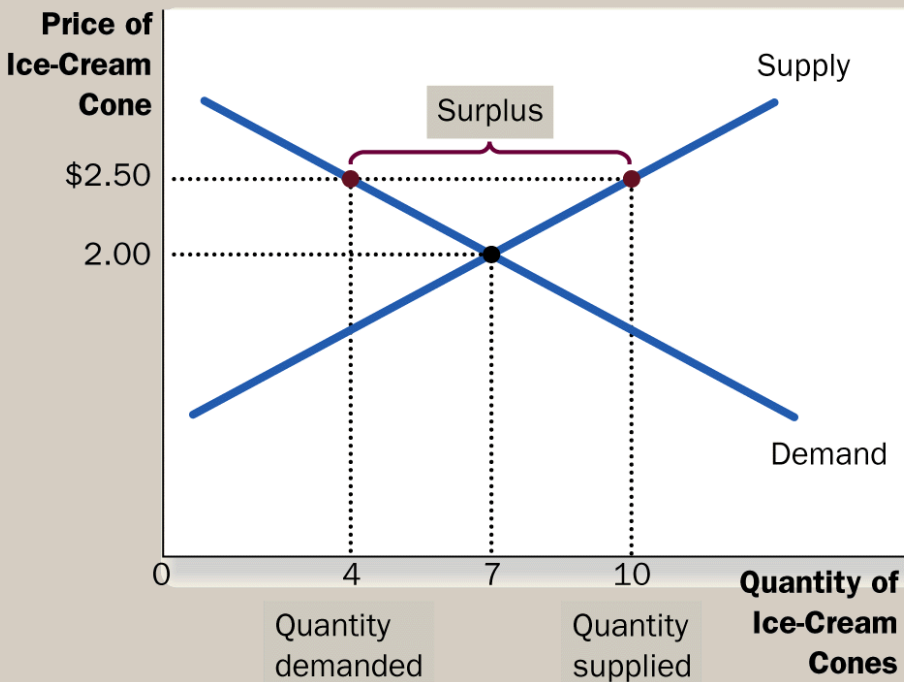


Figure 9 Markets Not in Equilibrium

(a) Excess Supply



(b) Excess Demand

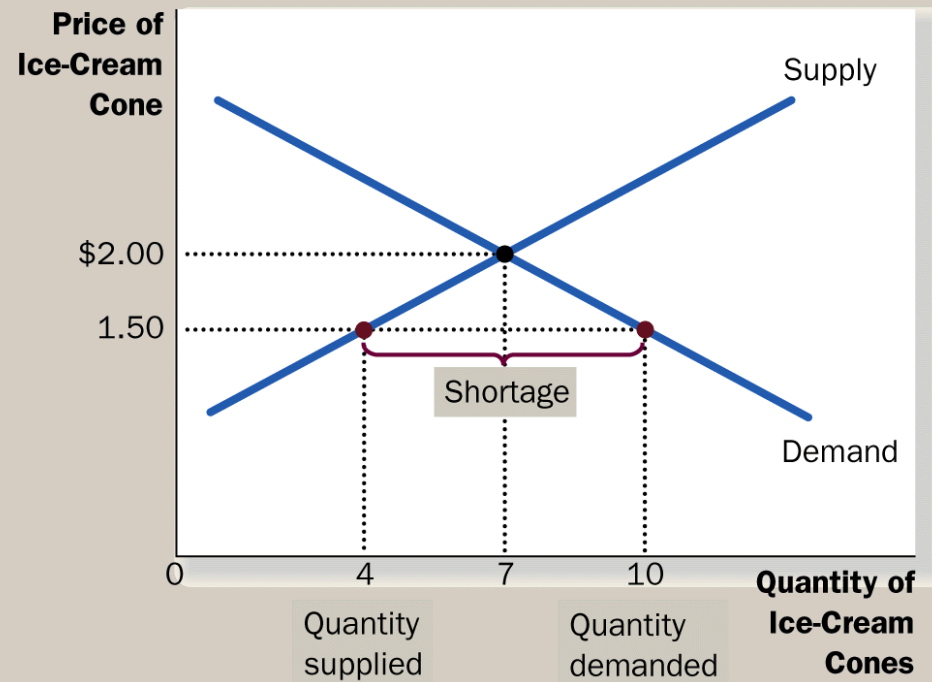


Table 3 The Three-Step Program for Analyzing Changes in Equilibrium

A Three-Step Program for Analyzing Changes in Equilibrium

1. Decide whether the event shifts the supply or demand curve (or perhaps both).
2. Decide in which direction the curve shifts.
3. Use the supply-and-demand diagram to see how the shift changes the equilibrium price and quantity.

Figure 10 How an Increase in Demand Affects the Equilibrium

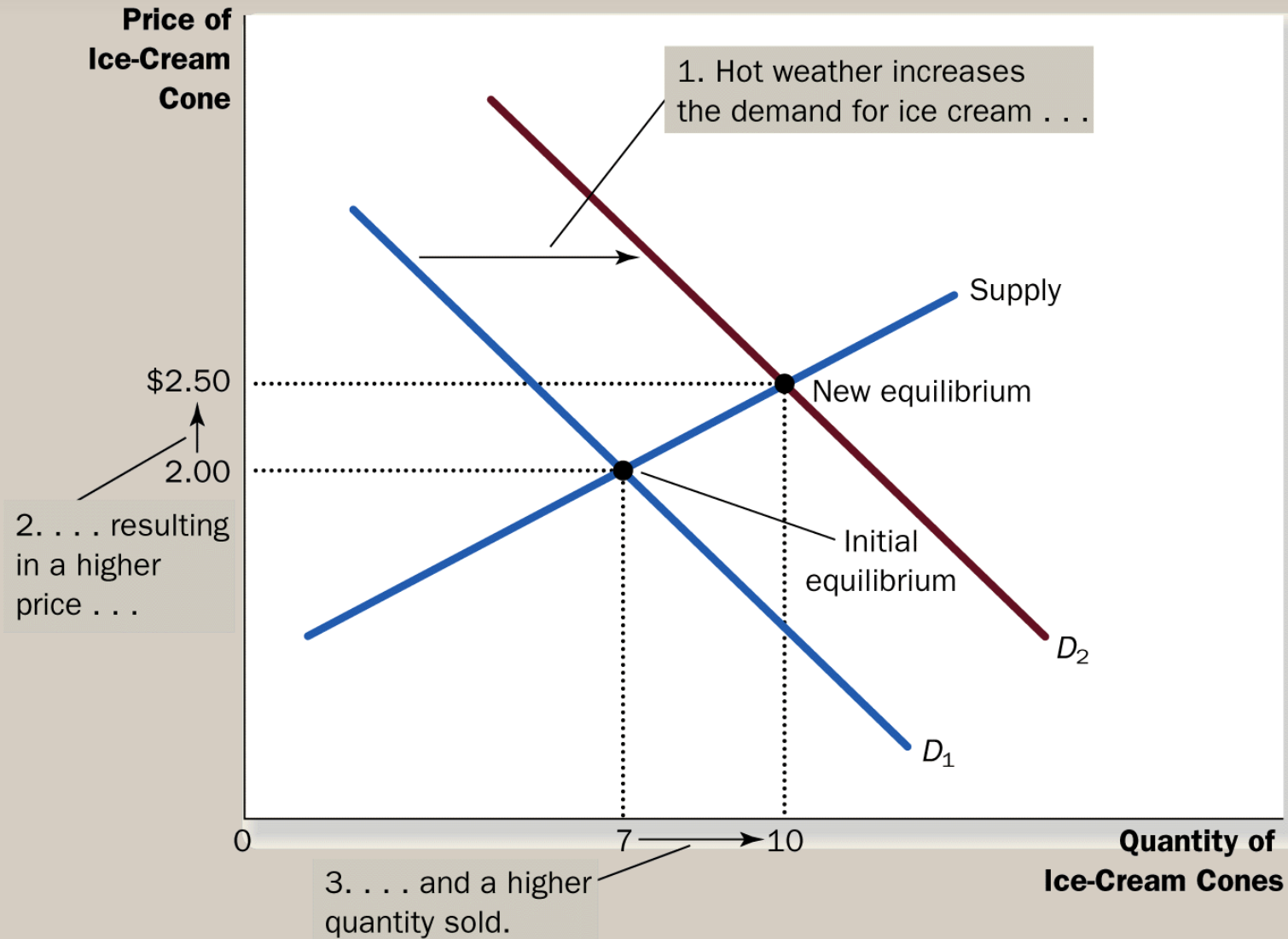


Figure 11 How a Decrease in Supply Affects the Equilibrium

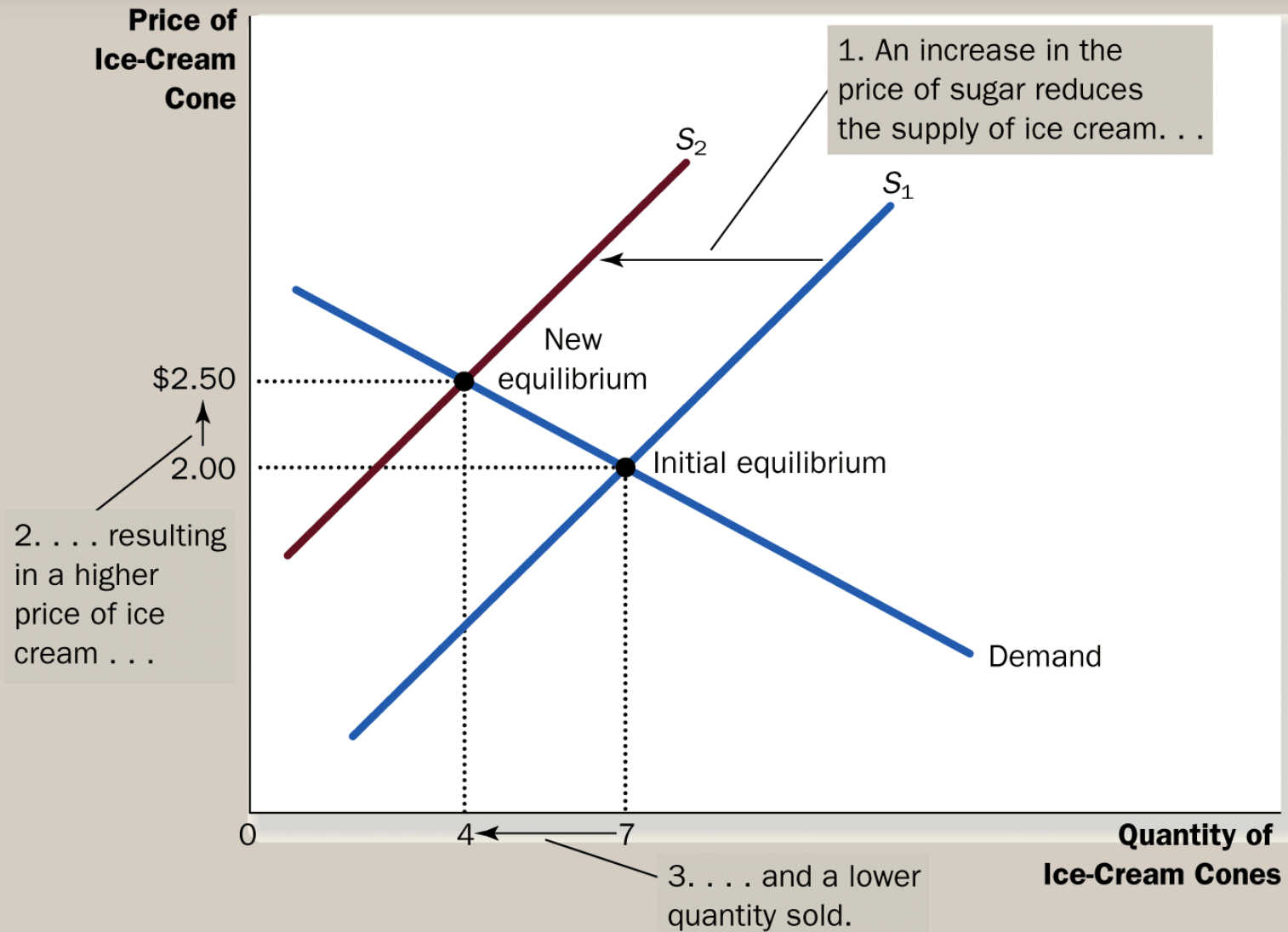
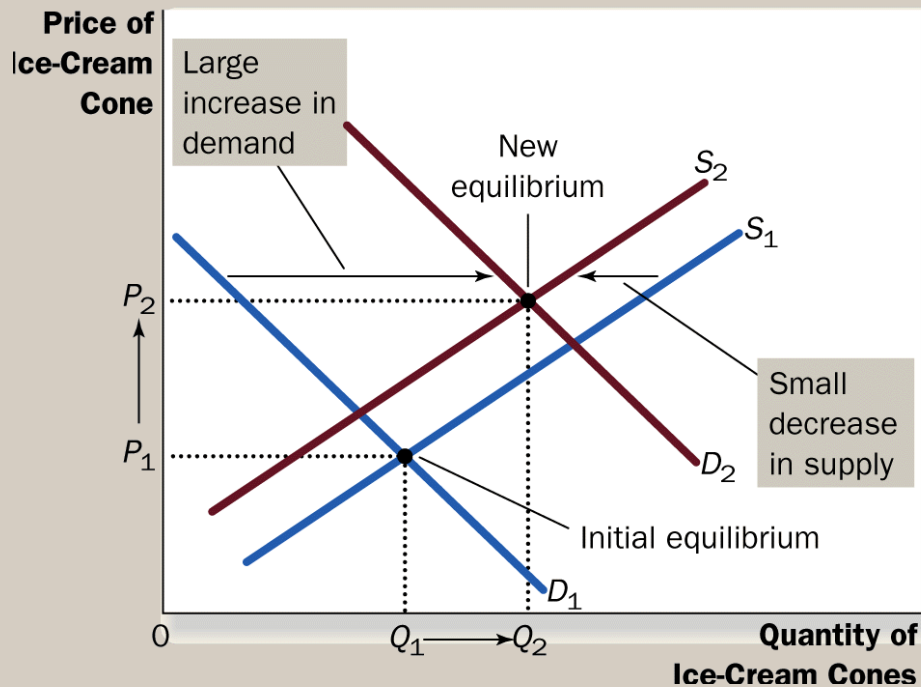


Figure 12 A Shift in Both Supply and Demand

(a) Price Rises, Quantity Rises



(b) Price Rises, Quantity Falls

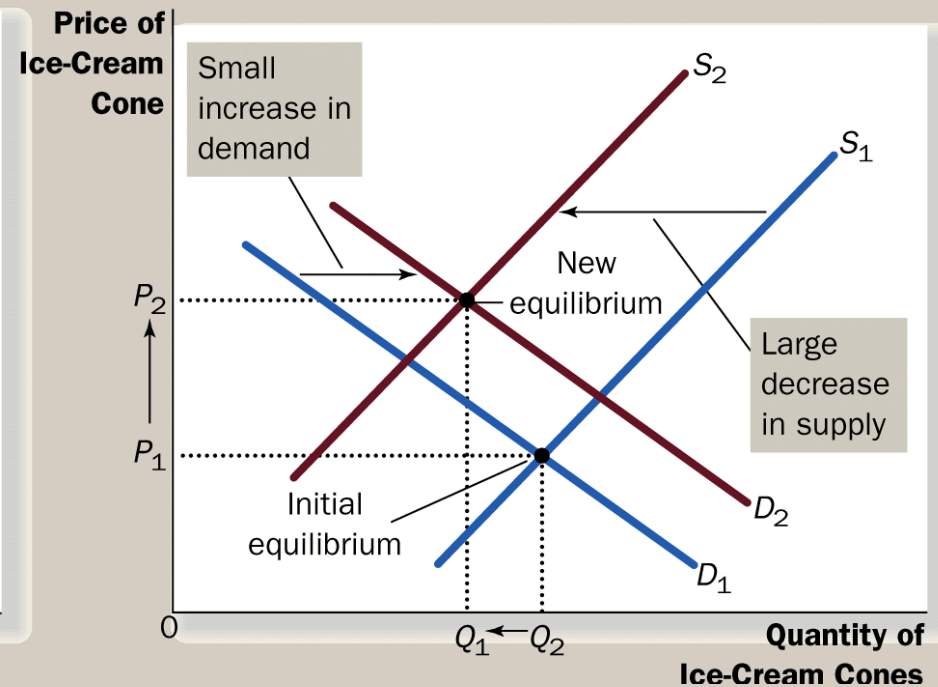


Table 4 What Happens to Price and Quantity When Supply or Demand Shifts?

	No Change in Supply	An Increase in Supply	A Decrease in Supply
No Change in Demand	<i>P</i> same <i>Q</i> same	<i>P</i> down <i>Q</i> up	<i>P</i> up <i>Q</i> down
An Increase in Demand	<i>P</i> up <i>Q</i> up	<i>P</i> ambiguous <i>Q</i> up	<i>P</i> up <i>Q</i> ambiguous
A Decrease in Demand	<i>P</i> down <i>Q</i> down	<i>P</i> down <i>Q</i> ambiguous	<i>P</i> ambiguous <i>Q</i> down

