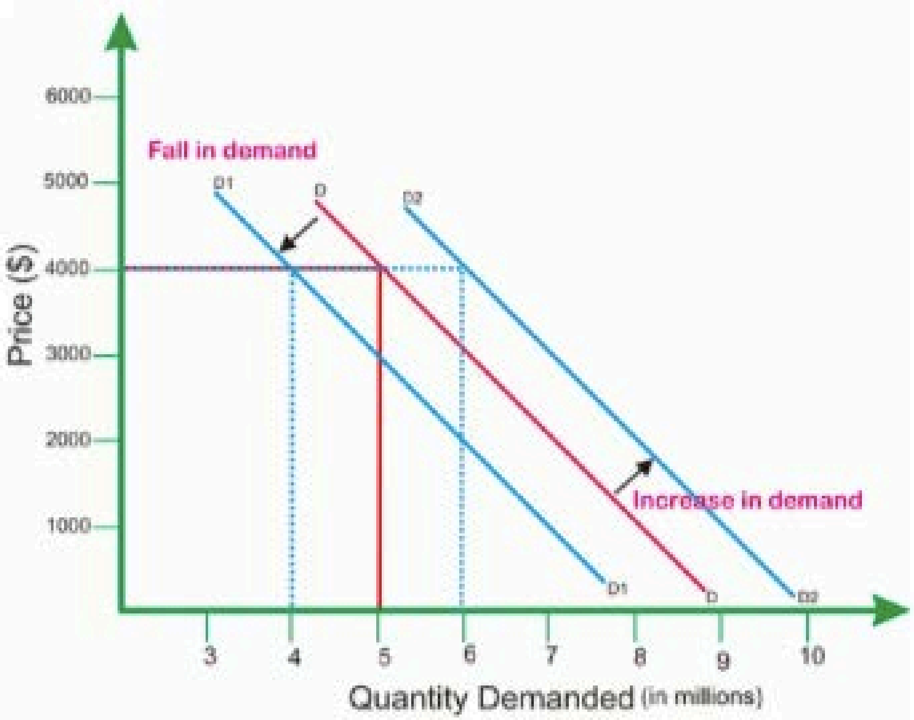
Demand

Saturday, 21 November 2015 3:22 pm

Demand is the want or willingness of consumers to buy goods and services.

Derived demand is when the demand for one good occurs as a result of demand for another good.
When the demand for coffee goes up, the demand for plantation workers will increase

Law of demand: Ceteris Paribus, as price increases, demand falls



Shift in Demand Curve

Extension & Contraction of Demand

Determinants of Demand

Saturday, 21 November 2015   3:33 pm

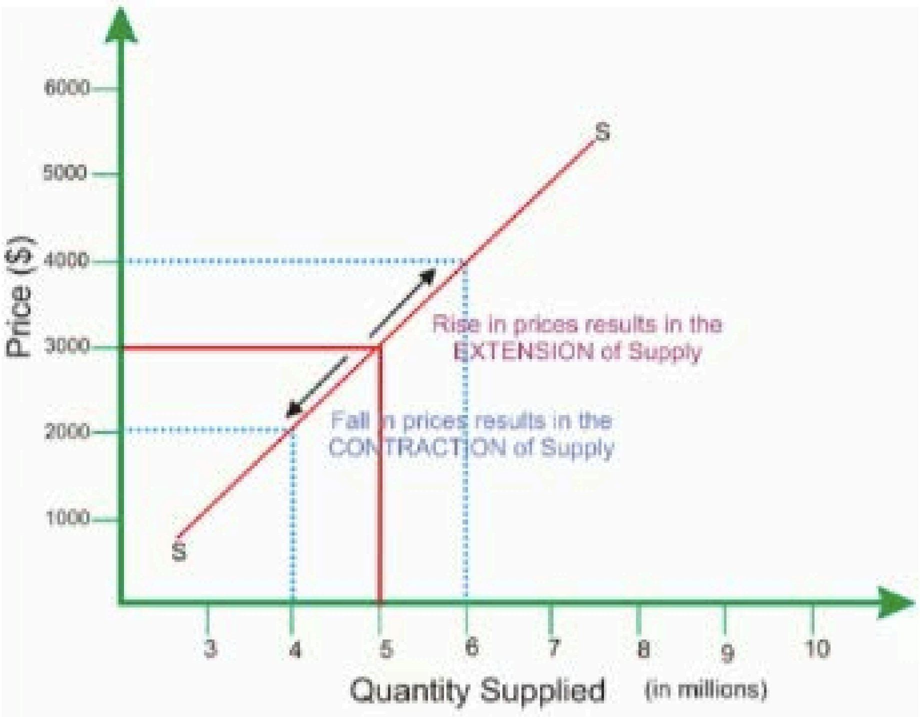
1. **Income:**
    a. **Normal goods**: More income: demand goes up
    b. **Inferior goods:** More income: demand goes down
2. **Population**: More people to spend, more spending, more demand
3. **Taste and Preferences:** Fashionable commodities will have more demand
4. **Income Tax:** Less income tax, more disposable income, more spending, more demand. ALSO depends on customer confidence
5. **Substitute goods:** Substitute goods are goods that can easily replace the good. For example margarine is a substitute for butter. Higher price of substitute, more demand for good
6. **Complementary goods:** Complementary goods are demanded along with other goods or jointly demanded with other goods. For example, demand for cars is affected the change in price of petrol.
7. **Advertising:** Good advertising, more demand
8. **Climate:** Certain goods are climate bound. For example, ice cream in summer is demanded more
9. **Interest rates:** Lower interest rates, lower cost of borrowing money, more borrowing, more spending, more demand

Supply

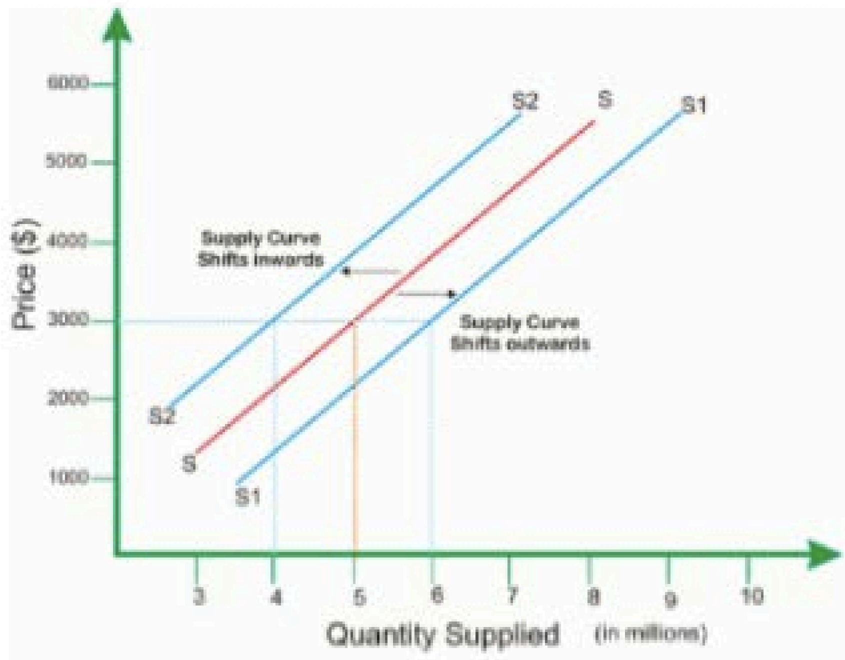
Saturday, 21 November 2015 3:39 pm

Supply refers to the amount of goods and services firms or producers are willing and able to sell in the market at a possible price.

Law of Supply: as the price for a good/service rises, the supply rises.



Extension & Contraction of Supply



Shift in Supply Curve

Determinants of Supply

Saturday, 21 November 2015 3:57 pm

1. **Price of the commodity:** Higher price, more potential revenue for firm, more supply
2. **Cost of production:** Higher cost of production, decrease in supply.
3. **Technological advancement:** Better technology, lower cost of production, more supply
4. **Taxes:** More taxes, more cost of production, less supply
5. **Subsidies:** More subsidies, less cost of production, more supply
6. **Climate:** Flood destroying resources, lower supply

Equilibrium and Market Price

Saturday, 21 November 2015 4:00 pm

Equilibrium price

When the quantity demanded meets the quantity supplied. The equilibrium price is the price at this junction.

Market Price

The market price is the price at which the good is being traded in a market.

Supply

An increase in supply means **more quantity and a lower price**

Demand

An increase in demand means **more quantity and a higher price**

Price determination

Shows

- Resource Allocation
- Price mechanism
- Government Intervention