



Demand & Supply

Market - is a physical or a virtual place / platform through which buyers and sellers meet to make transactions.

Market is made up of all the consumers and all the producers who wish to buy and sell any given product.

Every market has 2 market participants namely buyers / consumers/ customers and sellers/ producers/ firms.

Price Determination is different from Price Setting.

Price determination is always on the basis of market forces of demand and supply.

Price Setting is just the act of putting a price on something which is done by producers but if that price is not acceptable to the consumers then producers have to readjust the price that the set.

What is Demand?

Demand is the **willingness** and the **ability** to buy something **at a certain price**, during a **certain time period**, while **other factors affecting demand stay constant**.

Demand Curve

Demand curve is a graph that shows the relationship between **quantity demanded** of a product and its **price**.

Demand curve is made from Demand Schedule. **Demand Schedule is a table listing the quantity that a consumer would wish and able to buy at different price levels.**

<i>Price per Unit</i>	<i>Quantity Demanded</i>
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100	1
80	2
70	3
50	4

Demand curve shows inverse relationship between price and quantity demanded of a product.

Supply Curve

Supply is the **willingness** and the **ability** to produce something **at a certain price**, during a **certain time period**, while **other factors affecting supply stay constant**.

Supply Schedule

Is a table listing the prices and the corresponding quantity that a firm will be willing and able to produce.

<i>Price per Unit</i>	<i>Quantity Supplied</i>
1000	10
1200	15
1500	20
2000	25

The relationship between price and quantity supplied is direct as higher prices indicate more profits for the producers and therefore they would be willing to produce more.

Other factors affecting Demand

- Quality (preferences) / tastes
- Population
- Seasonal Effect
- Availability of credit
- Income Tax
- Number of Substitutes
- Price of substitutes
- Price of complementary goods

Complementary Good - products that have joint consumption

To differentiate between the change in demand due to product price and due to other factors affecting demand we use some specific terminology.

Price of Product - Extension or Contraction in Demand

Other Factors - Increase or Decrease in Demand

Other Factors that affect Supply

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Market Demand versus Individual Market Demand Curve

Market demand is made of all individual demand curves and similarly the market supply curve is made up of all individual supply curves

Or in simple words market demand curve is aggregate of individual demand curves. If you need to find the total quantity of any product that the entire market will demand lets say of coke then you need to sum up the quantities that individuals will demand at varying price levels.

Graphically, market demand is horizontal summation of individual demand curves which is found by adding up individuals quantity demanded at different price levels.

Market Supply