

## Understanding Demand Chapter 4

### Demand

- The amount of a good and/or service a consumer is willing and able to purchase based on what they are willing to pay for it. (price)
- Price effects demand.

### Law of Demand

- If the price goes up, then demand goes down.
- If the price goes down, demand goes up.

### Purchasing Power

- The amount of money consumers have to spend.

### Income Effect

- A change in price leads to an increase or decrease of purchasing power.
- The more you make the more you can possibly consume.

### Substitution Effect

- Taking a lower priced, but similar, product instead of the more expensive one.
- Kroger brand Vanilla Wafers are cheaper than the Nabisco product.

### The Demand Schedule

- A table that lists the quantity of a good that a person will purchase at each price in a market.

**Demand Schedule**

<i>P</i>	<i>Q<sub>d</sub></i> (thousands)
\$140	0
\$120	5
\$100	10
\$80	15
\$60	20
\$40	25
\$20	30
\$0	35

## Elasticity of Demand

- Extent to which a change in a goods price will affect the quantity consumers demand.
- Inelastic Demand – your demand for a good that you will keep buying despite a price increase. (Customers are not responsive to change)
- Elastic Demand – your demand for a good that you will not keep buying despite a price increase. (Customers very responsive to change)

## Understanding Supply

### Chapter 5

### Supply

- The amount of goods available.
- Economists use the term quantity supplied to describe how much of a good is offered for sale at a specific price.

### Law of Supply

- The higher the price, the larger the quantity produced.
- As the price of a good rises, companies will produce more to make more of a profit.



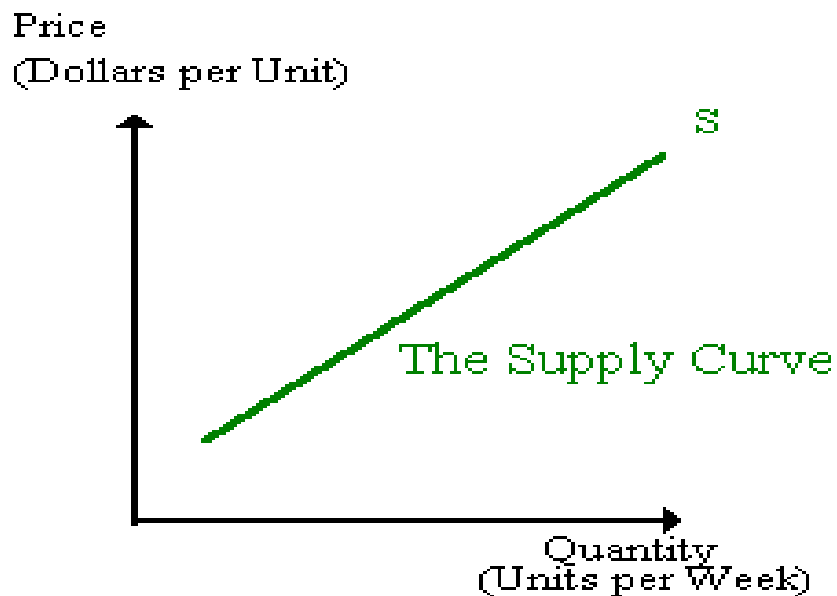
## The Supply Schedule

- Shows the relationship between price and quantity supplied for a specific good.

	<b>Price of Stuffed Animals</b>	<b>Quantity of Stuffed Animals</b>
<b>A</b>	<b>5</b>	<b>0</b>
<b>B</b>	<b>10</b>	<b>100</b>
<b>C</b>	<b>15</b>	<b>200</b>
<b>D</b>	<b>20</b>	<b>300</b>
<b>E</b>	<b>25</b>	<b>400</b>
<b>F</b>	<b>30</b>	<b>500</b>
<b>G</b>	<b>35</b>	<b>600</b>
<b>H</b>	<b>40</b>	<b>700</b>
<b>I</b>	<b>45</b>	<b>800</b>
<b>J</b>	<b>50</b>	<b>900</b>

## The Supply Curve

- Very similar to a demand curve.
- The horizontal axis now measures the quantity supplied rather than demanded.



## Elasticity of Supply

- A measure of the way suppliers respond to a change in price.
- Inelastic Supply – If supply is not very responsive to changes in price, it is considered inelastic.
- Elastic Supply – An elastic supply is very sensitive to changes in price.

## What Affects Elasticity of Supply? Time

- In the short run, a firm cannot easily change its output level, so supply is inelastic.
- An orange grove has difficulty adjusting supply due to the longer growth period of the orange trees.
- In the long run, firms are more flexible, so supply can become more elastic.
- Business that offers services, like a salon, can easily expand supply by hiring new workers.

## Costs of Production

- A basic question any business owner has to answer is how many workers to hire.
- To answer this questions the owners have to consider how the number of workers they hire will affect their total production.
- The marginal product of labor is the change in output from hiring one additional unit of labor, or worker.

Marginal Product of Labor		
Labor (number of workers)	Output (beanbags per hour)	Marginal product of labor
0	0	—
1	4	4
2	10	6
3	17	7
4	23	6
5	28	5
6	31	3
7	32	1
8	31	-1

## Marginal Returns

- Increasing marginal returns occur when marginal production levels increase with new investment.
- Diminishing marginal returns occur when marginal production levels decrease with new investment.
- Negative marginal returns occur when the marginal product of labor becomes negative.

