Benjamin Fenster
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Notes – Module 2

Supply, Demand, and Price

I. Demand
   a. Ceteris paribus, as price decreases the quantity demanded rises.
   b. Factors Affecting Demand
      i. P_x. The price of the product. Changes in P_x constitute movements along the demand curve. All other factors shift the demand curve.
      ii. Y. Income available
      iii. W. Household's accumulated wealth.
      iv. P_r. Prices of related goods.
      v. T. Tastes and preferences.
      vi. B. Number of buyers.
      vii. E. Expectations about future income, wealth, and prices.

II. Supply
   a. Ceteris paribus, as price decreases, the quantity demanded increases.
   b. Factors Affecting Supply
      i. P_x. The price of the product. Changes in P_x constitute movements along the supply curve. All other factors shift the supply curve.
      ii. C_p. The costs of production (resources, taxes, et cetera)
      iii. T_x. The technology available to use in production. Better technology yields more supply.
      iv. G. Government restrictions. Import quotas, et cetera.
      v. Ns. The number of sellers.
      vi. E_f. Expectations about future prices.

III. Characteristics of Markets
   a. Private Property
      i. Private individuals own most property.
      ii. The right to own property and negotiate contracts encourages diverse use of resources by individuals and businesses
      iii. Ownership of land, capital, intellectual property, etc.
   b. Self-Interest / Gains from Trade
      i. Everyone acting in their own self-interest balances resources throughout the economy.
      ii. See Macroeconomics notes.
   c. Competition
      i. Many sellers and many buyers
      ii. No one individual or small group of individuals controls the economy.
   d. Government
      i. Government outlines and enforces rules.
      ii. Market transactions are mainly left alone – let the market do its job.

IV. Markets at Work
   a. What's Produced?
      i. Goods and services that can yield a profit will be produced.
      ii. Industries that offer greater profits will attract more firms. Industries suffering losses will see firms leaving to pursue more profitable ventures.
      iii. This means consumers "vote" for the products they want by being willing to pay enough for them to yield a profit for producers.
   b. Goods and services will be produced with the most efficient technology to provide the greatest possible profit to the producer.
   c. Consumers willing and able to purchase goods will obtain them. This determines the final distribution.
   d. Progress and technological advance are obtained as firms seek to "outdo" their competitors by using more efficient technology to lower costs.