Economics 001
Principles of Microeconomics

Professor Arik Levinson

•Lecture 2
  –Demand
  –Supply

Example: Transportation Prices – vary with crowds or not?

- NYC Subway
- Airlines
- DC Taxis
- DC Metro
- DC Beltway Toll Lanes
- Uber

Definition: Quantity Demanded

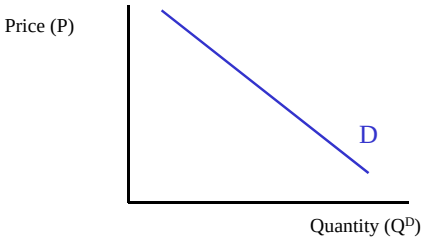
Q^D = the amount of a good or service
people reasonable desire to purchase (can afford)
during a particular time
at a particular price.

i>clicker

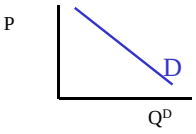
Would you be willing to purchase the following package?

Textbook ***plus*** **i>Clicker** ***plus*** **APLIA**

The Demand Curve



The "Law" of demand



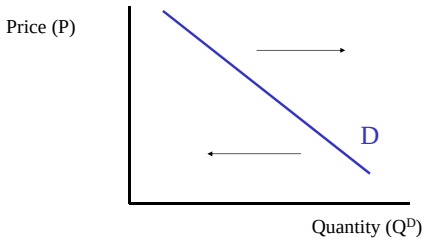
Other things equal, the higher the price of a good, the smaller the quantity demanded (Q^D)

(Latin: *Ceteris paribus* ... "other things equal")

Shifts in D curve

- income
- price of substitutes
- price of complements
- population, tastes, weather
- expected future prices
- quality of the product

Shifts in the Demand Curve



2 common confusions

#1) Individual vs. Market demand

#2) Movement along vs. shift in D curve

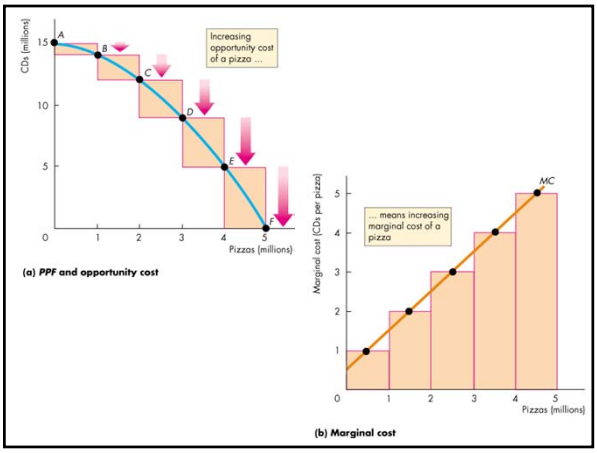
Definition: Quantity Supplied

Q^S = the amount of a good or service suppliers will be willing and able to sell during a particular time
at a particular price, ceteris paribus.

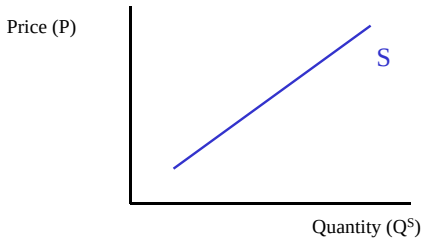
i>clicker

Would you be willing to sell your i>Clicker to the Economics Department at the end of the semester?

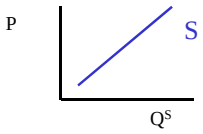
i>Clicker



The Supply Curve



The "Law" of supply

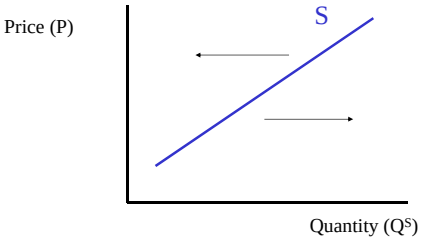


The higher the price of a good, the more producers will be willing to supply (Q^S), ceteris paribus

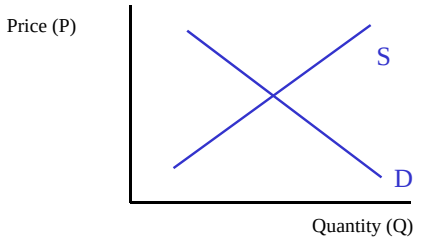
Shifts in S curve

- price of inputs
- P of other goods produced
- expected future prices
- # suppliers
- technology

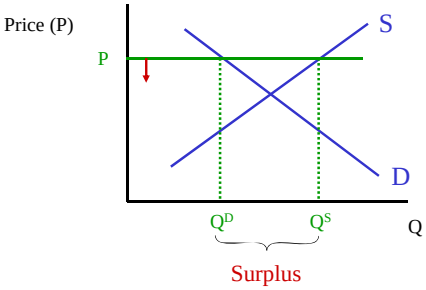
Shifts in the Supply Curve



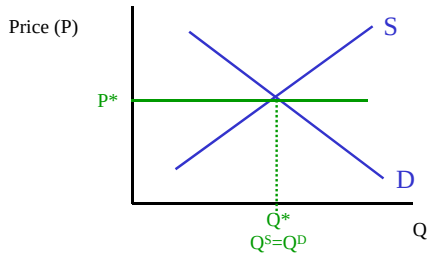
Put Supply and Demand together



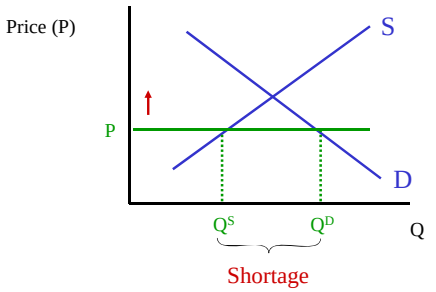
What if the price is too high?



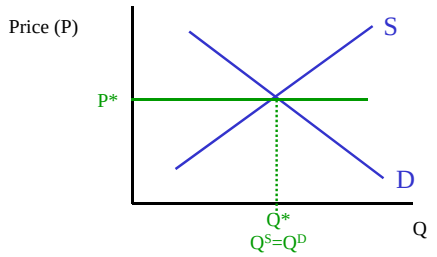
Market equilibrium



What if the price is too low?



Market equilibrium



DN: Market equilibrium

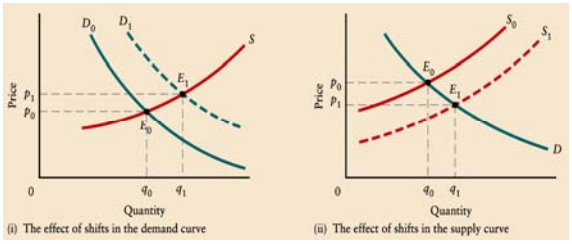
A Price and quantity at which there is no shortage or surplus

$Q^S = Q^D$

Shifts in Supply and Demand can now be related to P and Q

Shift	P*	Q*
S→	↓	↑
←S	↑	↓
D→	↑	↑
←D	↓	↓

The Four "Laws" of Demand and Supply



Disney's reasons for switching from ticket books to entry pass:

- Customers prefer it.
- Lower administrative costs.
- Eliminate aftermarket in tickets.
- Charge parents who don't go on rides.
- Eliminate loiterers.
- Sell more food and drink.
- …..

Examples

- Illegal drugs
- Kidneys
- Algebra
- Rent control -- a price ceiling
- The minimum wage -- a price floor