The Economics Department, UMR Presents:

Supply and Demand: Price and Quantity Determination in Competitive Markets

Starring

- Changes in Equilibrium

Featuring

- Increases in Demand, *c.p.*
- Increases in Supply, *c.p*
- Decreases in Demand, *c.p.*
- Decreases in Supply, *c.p.*
- Simultaneous Changes

Changes in Equilibrium

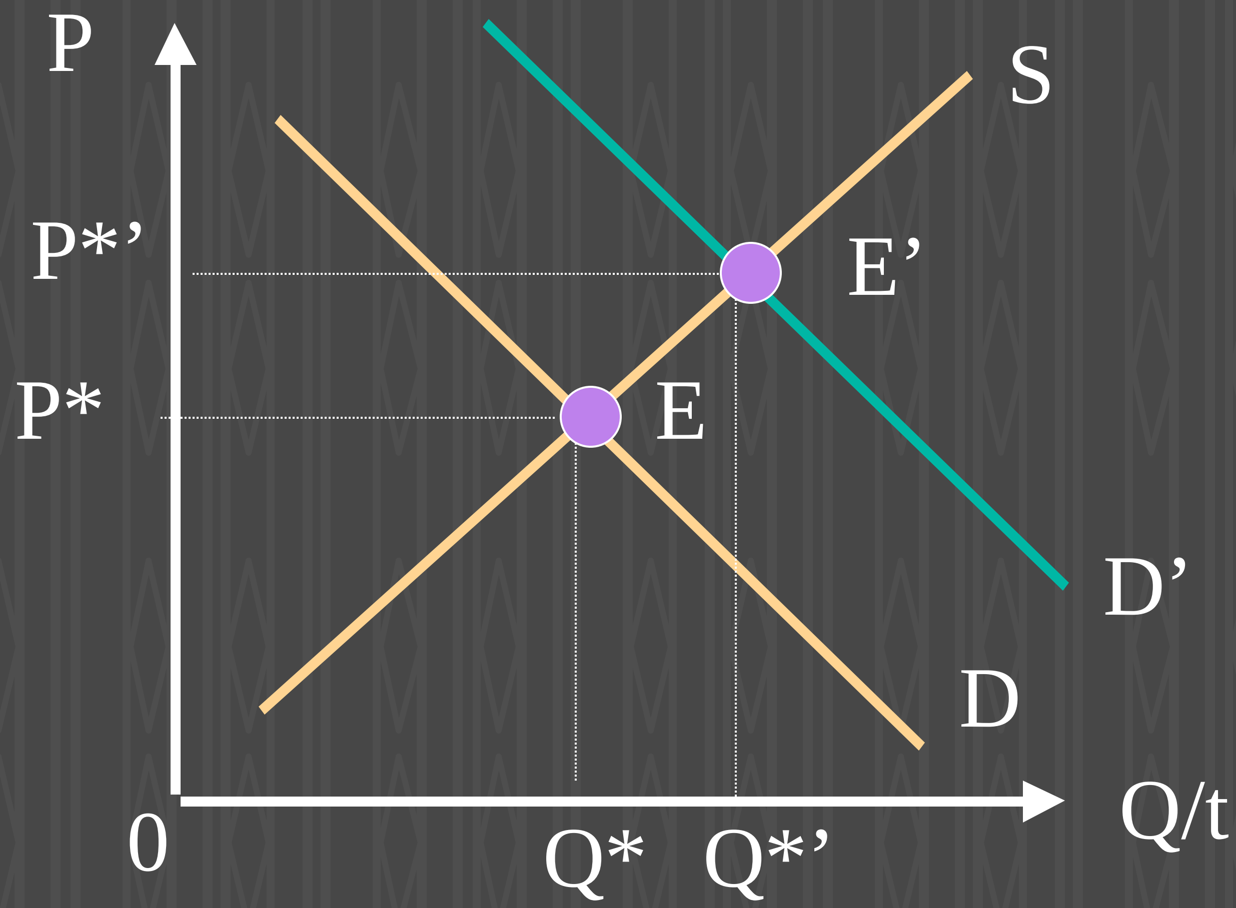
- Remember that Supply and Demand are drawn under the *ceteris paribus* assumption.

- Any factors which cause Supply and/or Demand to change will affect equilibrium price and quantity.

Change in Demand

- Demand will change for any of the factors discussed previously.
- Remember PINTE (except for the price of the good itself)
- For instance, let’s say the demand for CDs increased due to an increase in income

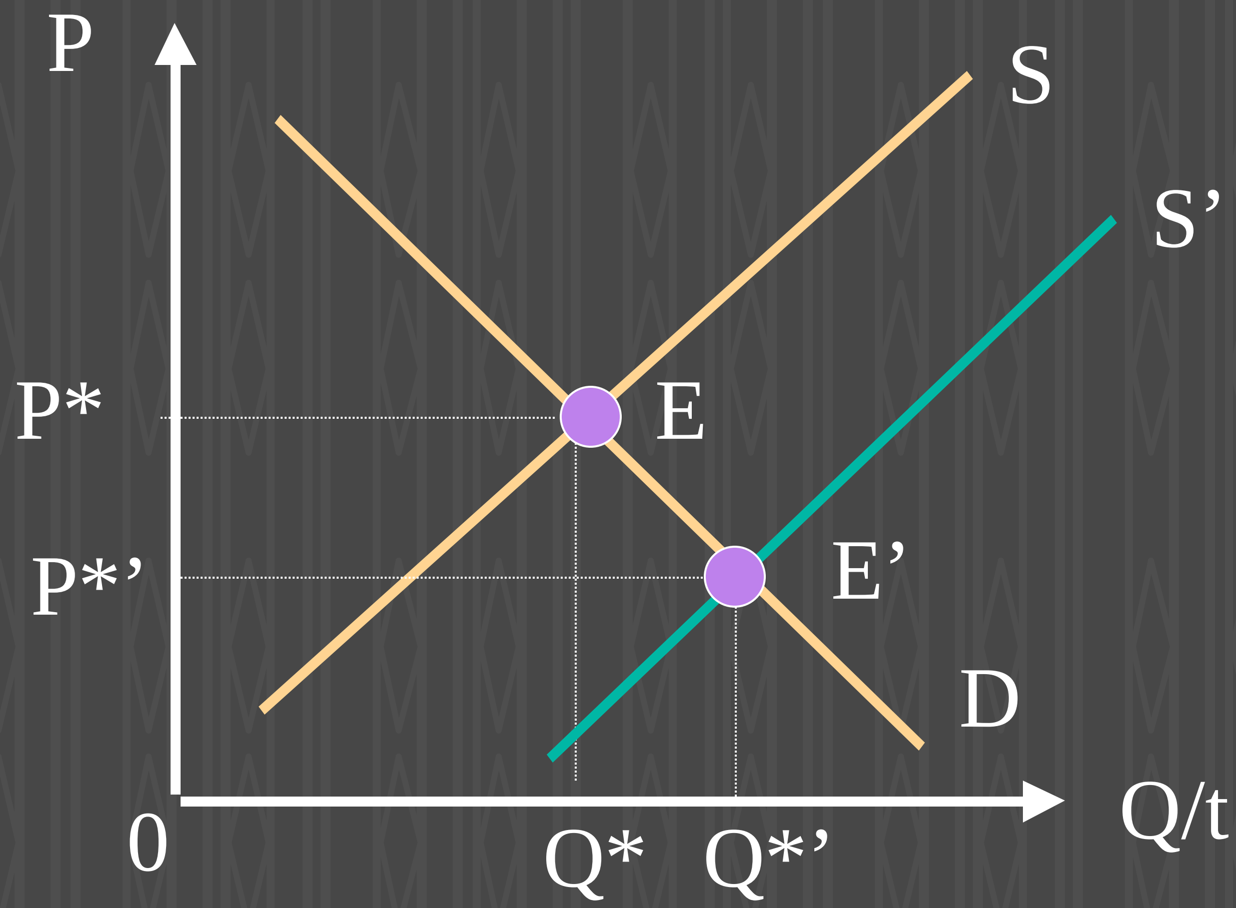
Increase in Demand



Change in Supply

- Supply will change for any of the factors discussed previously
- Remember PENT (except for the price of the good itself)
- For instance, let's say that the government lowers taxes on CDs

Increase in Supply



Changes in Demand and Supply

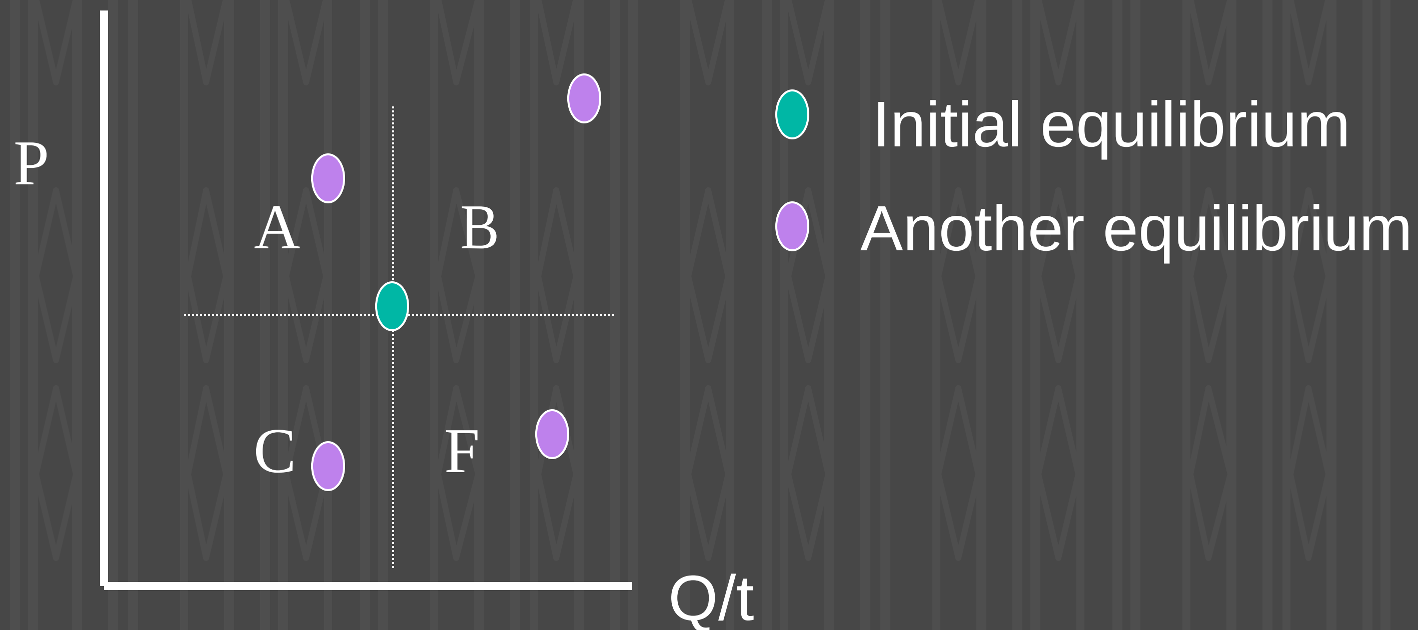
To determine the impact of both supply and demand changing:

- First examine what happens to equilibrium price and quantity when just demand shifts.
- Second, examine what happens to equilibrium price and quantity when just supply changes
- Finally, add the two effects together.

Changes in Demand and Supply

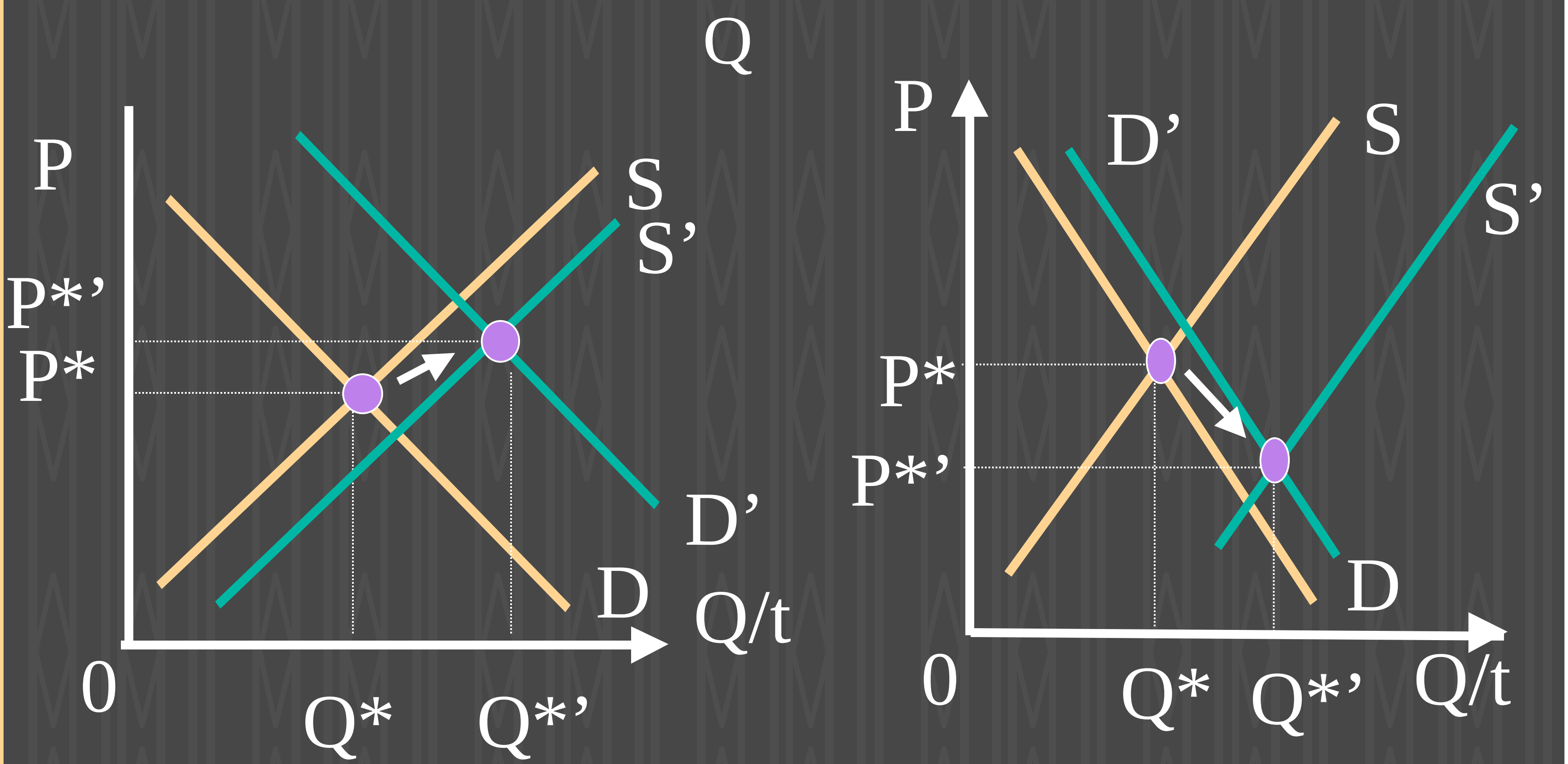
- When supply and demand move in the same direction equilibrium price is ambiguous
- When supply and demand move in opposite directions equilibrium quantity is ambiguous
- If P and Q both increase the dominant force must have been an increase in D
- If P and Q both decrease the dominant force must have been an decrease in D
- If P increases and Q decreases, the dominant force must have been a decrease in S
- If P decreases and Q increases the dominant force must have been an increase in S

Explaining Changes in Equilibrium Price and Quantity



Moving to quadrant B implies the dominate force was an increase in demand. To quadrant C, the dominate force is a decrease in demand. Moving to quadrants A or F implies the dominate force was supply (decrease for A, and increase for F)

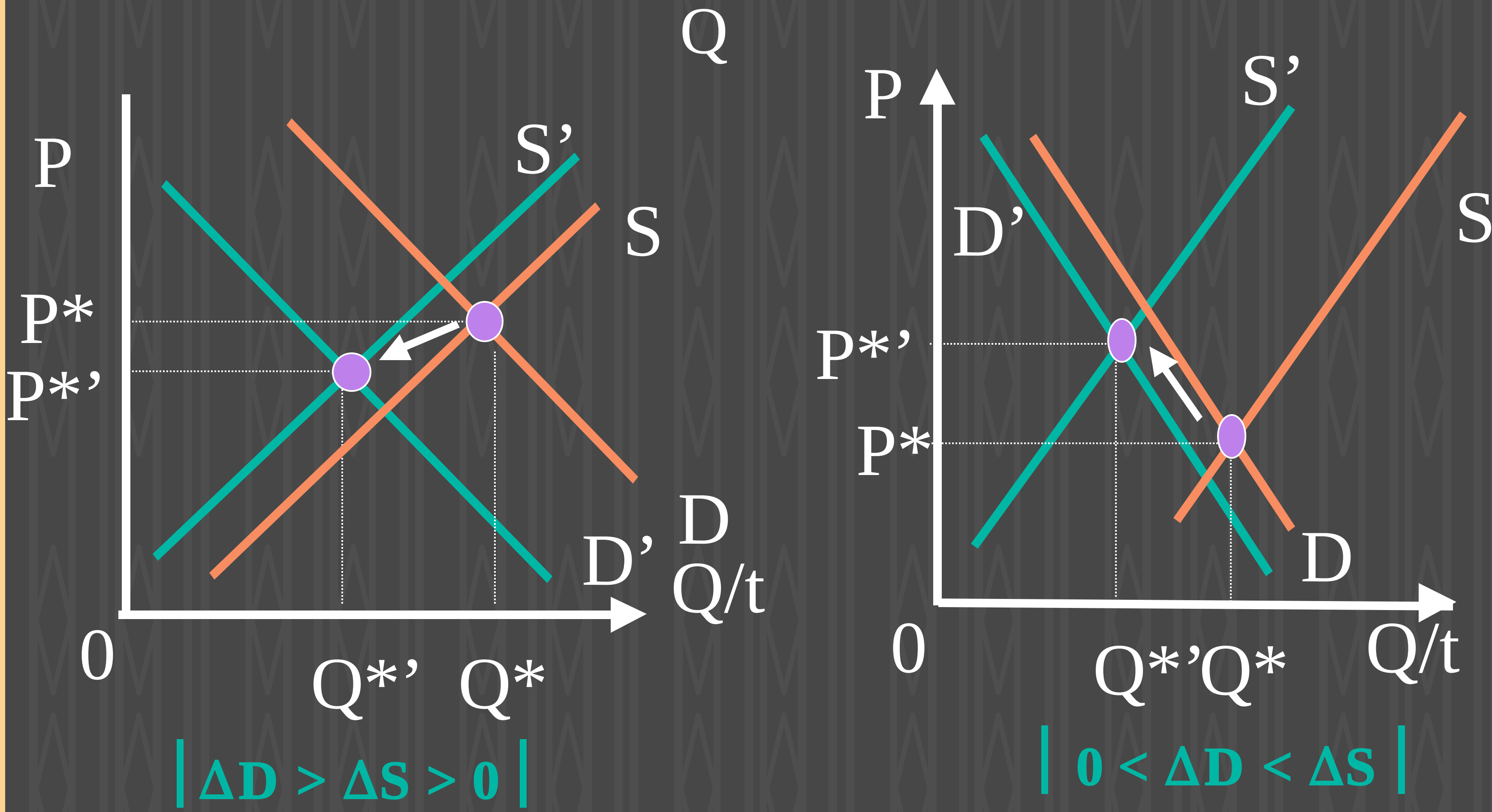
Increase in Supply and Demand: ↑Q, ΔP ?



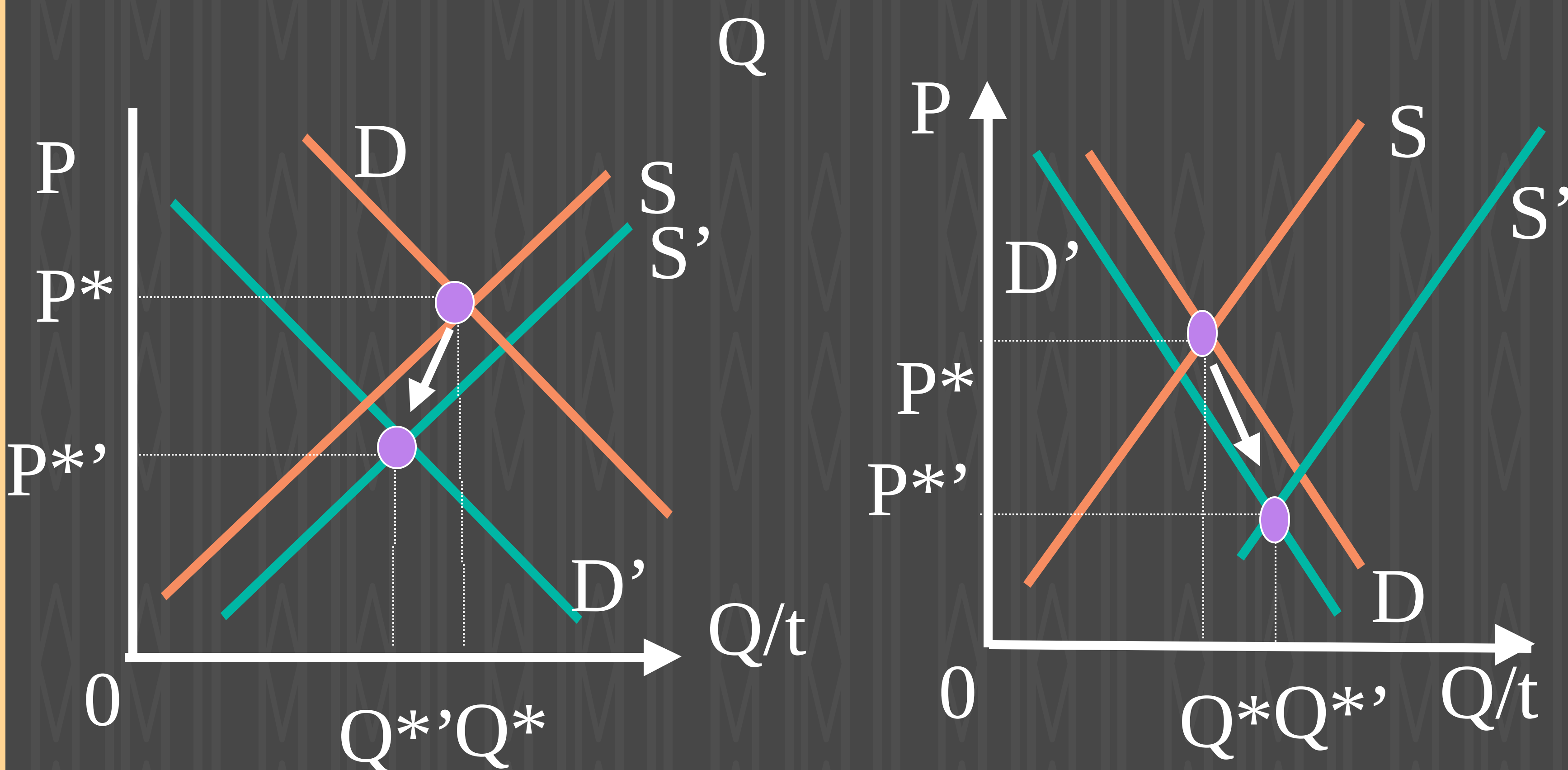
ΔD > ΔS > 0

0 < ΔD < ΔS

Decrease in Supply and Demand: ↓Q, ΔP ?



Increase in Supply and Decrease in Demand: ↓P, ΔQ ?

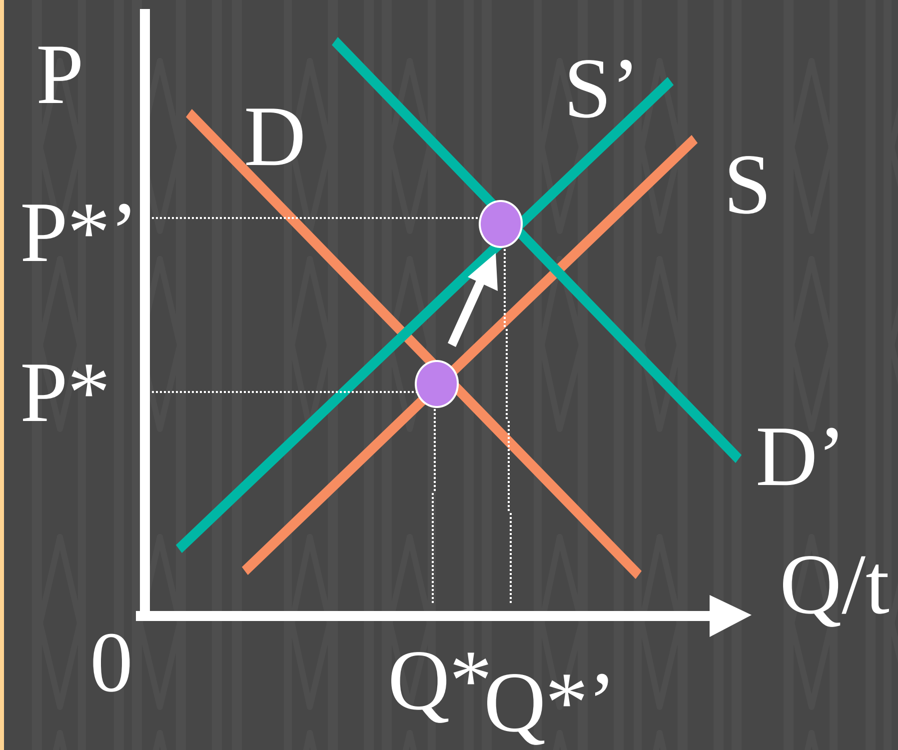


ΔD dominates, ΔQ < 0

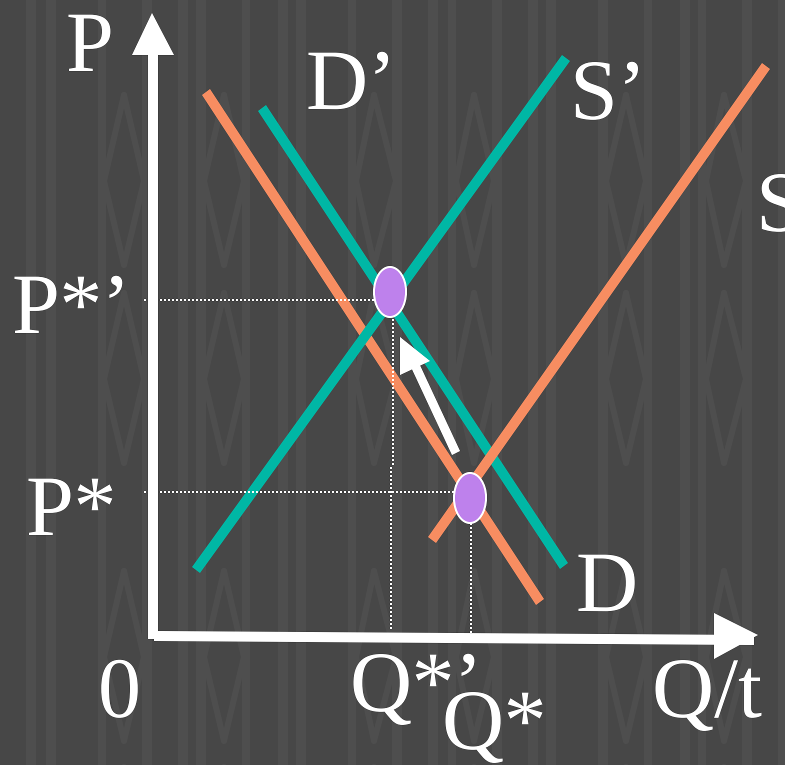
ΔS dominates, ΔQ > 0

Decrease in Supply and Increase in Demand: ↑ P, ΔQ ?

Q



ΔD dominates, ΔQ < 0



ΔS dominates, ΔQ > 0

Helpful Hints

- Know how each of the main Demand Shifters, PINTE, and Supply Shifters, PENT, excluding the price of the good itself, effect equilibrium price and quantity
- For an income change, you also need to know whether the good is "normal" or "inferior"
- Be able to show graphically how a change in one of these shifters affects equilibrium
- Practice, Practice, Practice, Practice, Practice

The End