



Chapter 3: Demand and Supply Checklist:

A. Demand is the willingness and ability to buy certain quantities at certain prices.

**If you can't say that one of D1-D6 changes, then demand has NOT changed.*

If **only the price changes(not D1-D6), we say that "the Quantity Demanded has changed".*

Demand can increase/decrease if:

D1. Consumer incomes are changing (or wealth)

i. normal goods

ii. inferior goods

D2. Population (# of consumers is changing)

D3. Tastes and preferences are changing

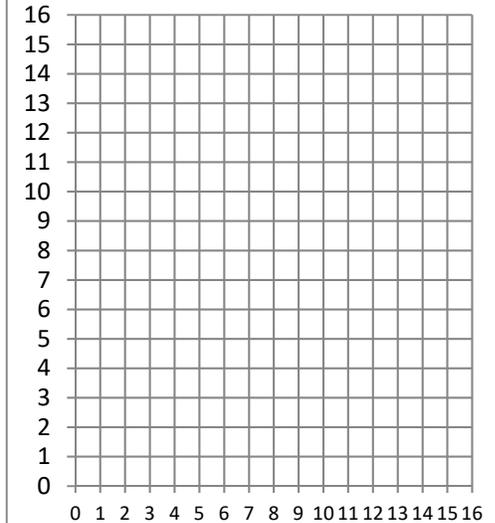
D4. Prices/availability of other, related goods are changing

i. complements

ii. substitutes

D5. Sales and excise taxes on products

D6. Consumer expectations about the future



B. Supply is the willingness and ability of firms to produce certain quantities at certain prices.

** If you can't say that one of S1-S6 changes, then supply has NOT changed.*

** If **only** the price changes(not S1-S6), we say that "the Quantity Supplied has changed".*

Supply can increase/decrease if:

S1. Technology is changing

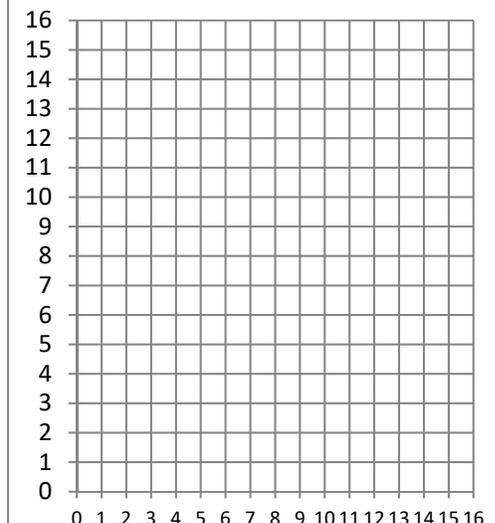
S2. Size of industry (# of producers is changing)

S3. Prices/availability of inputs are changing

S4. Prices of other possible outputs are changing

S5. Business taxes

S6. Producer expectations about the future



With any situation we want to analyze, we need to stick to the following steps!

Step 1: Identify what market we are analyzing: What good or service?

Step 2: Draw Initial Supply and Demand Curves Intersecting at Existing Price and Quantity

Step 3: Identify factors that may shift either Supply or Demand, or *rarely* BOTH

Step 4: Make appropriate changes to graph.

Step 5: Make your predictions. What should happen to price? To quantity? Summarize everything that happened and why.



Practice with Supply and Demand: For each, identify: What market are we talking about? Does Demand change? Does Supply Change? Or does *quantity demanded* or *quantity supplied* change? Increase or Decrease? Why? What happens to the price and Quantity?

- A. Iran is now allowed to sell oil on the world market, and allowed to import things (like cars) again.
Potential Markets:
 - a. Gasoline Market
 - b. Car Market
- B. The government passes a law saying that it is illegal to sell gas for more than \$1.50 per gallon.
- C. Consider the market for minivans. What would happen if:
 - a. People start having more kids
 - b. Obama bans steel imports
 - c. Chevrolet develops a new minivan-making robot
 - d. The price of SUVs drops A LOT
- D. The stock market rebounds, making people much wealthier
- E. Economics is a hot major right now, growing everywhere. Partly due to the book *Freakonomics*, more and more people are getting economics degrees, and more companies are recognizing the value of an economics degree. What markets could we analyze?
- F. Cigarettes:
 - a. The government puts a new 100% sales tax on cigarettes that must be paid by the purchaser.
 - b. The government adds a new \$2.00 tax per pack that must be paid by the producer.
 - c. The Surgeon General announces: “Whoops! Cigarettes are healthy!”
- G. This year, twice the normal number of babies are born! What will happen to the market for babysitters in:
 - a. The year 2017?
 - b. The year 2032?
- H. Market for sweatshirts:
 - a. A hurricane damages the cotton crop
 - b. The price of leather jackets falls
 - c. NCA&T requires 5 PE classes for everyone
- I. Suppose that the price of hot dogs falls due to new wiener making technology. What happens
 - a. To the demand for hot dogs?
 - b. In the market for ketchup?
 - c. And then in the market for tomatoes?
 - d. And then in the market for tomato juice?
 - e. And then in the market for orange juice?
- J. In the United States the price for milk is set by the government. Without the “help” of the government, milk might cost \$1.00 per gallon (wholesale), but the government sets it at \$2.00 per gallon.
- K. California sees record low temperatures, damaging orange trees.

