

Midterm Review: Supply and Demand

Econ 9: Introduction to Economics

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Demand

“Change in quantity demanded” is a movement from one point to another (from one price-quantity combination to another) on a fixed demand curve.

“Change in demand” is a shift of the demand curve

The determinants of demand are things that shift the demand curve (cause a change in demand).

Q. Fill in table below with examples of determinants of demand.

Determinants of Demand:	Examples
Tastes	
Number of Buyers	
Income	
Price of Relative Goods	
Substitutes	
Complements	
Consumer Expectations	Upcoming El Nino predicted to lead to severe hurricanes in Latin America in the future. This information creates an expectation of higher future prices of coffee beans, thereby increasing today's demand for coffee beans.

Supply

A “change in quantity supplied” is a movement along a fixed supply curve

A “change in supply” is a shift of the supply curve

Q. Fill in table below with examples of determinants of supply (cause a change in supply-shift)

Determinants of Supply	Examples
Resource Price	
Number of Buyers	
Technology	
Price of Other Goods	
Taxes and Subsidies	
Producer Expectations	

Practice Questions

- 1) The demand curve is downward sloping because
 - a. Producers offer less of a product for sale as the price of the product falls.
 - b. Lower prices of a product create income effects that lead consumers to purchase more of substitute goods.
 - c. The smaller the number of buyers in a market, the higher the product price.
 - d. Price and quantity demanded are directly related.

- 2) The Supply curve:
 - a. Reflects an inverse (negative) relationship between price and quantity supplied.
 - b. Reflects a direct (positive) relationship between price and quantity supplied.
 - c. Depicts the collective behavior of buyers in this market

- 3) What happens when?... (Show graphically)
 - a. Supply Increase. Demand Increase
 - b. Supply Increase. Demand Decrease
 - c. Demand Increase. Supply Increase
 - d. Demand Increase. Supply Decrease

Price Ceilings and Price Floors

- 1) Draw a basic supply and demand graph.
- 2) What happens when the government sets a subsidy? Show on your graph.
- 3) What happens when the government sets a price floor? Show on your graph.