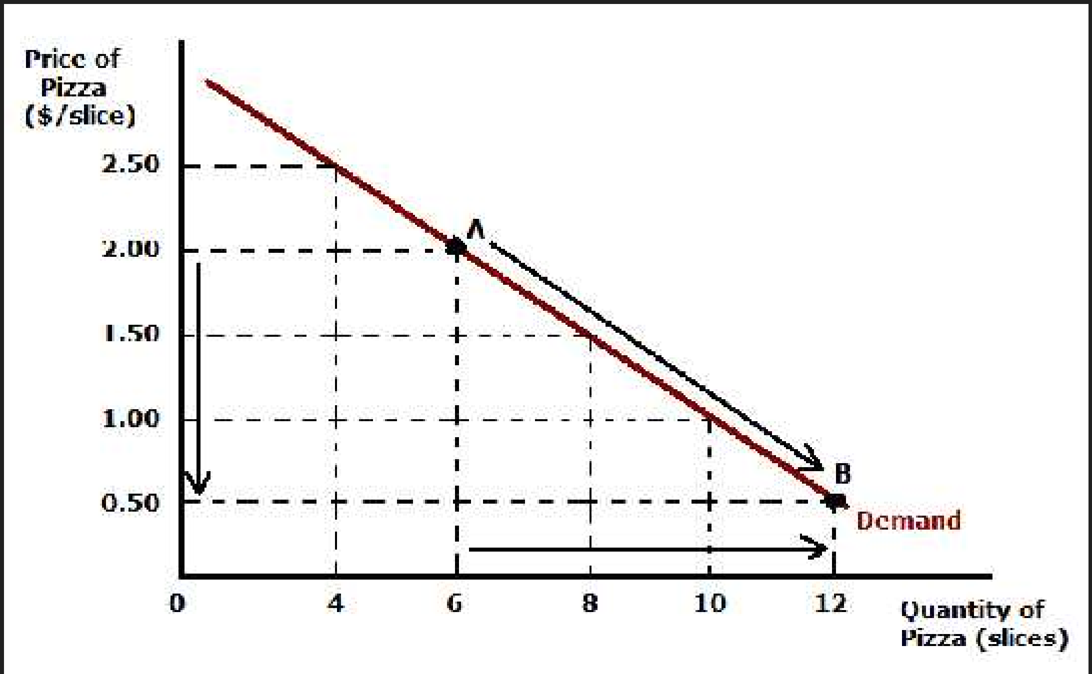
Demand and supply curves

Demand

- The quantity of a product that consumers are willing and able to buy at different prices.
- Quantity- Numerical quantity of a product that is being demanded.
- Product- Item that's being traded(goods and services).
- Notional demand- Demand that is speculative and not always backed up by the ability to pay.
- Effective demand- Demand that is supported by the ability to pay

Demand curve

- Demand curve- Represents the relationship between the quantity demanded and price of a product.
- Market demand- The total amount demanded by consumer.
- Demand schedule- The data from which a demand curve is drawn.



This curve shows:
Negative relationship between price and quantity demanded.
At what price consumers are willing and able to buy.

Factors influencing demand

- Income- The demand for goods and services invariably depends upon income for any individual. In terms of market demand, it refers to the income of all consumers and is invariably related to the state of the macroeconomy. The relationship between income and demand is positive for goods like cars and clothes. However, for some products, there is a negative relationship, with less being purchased as income rises and they are called inferior goods. For example, poor quality foods are less bought as people's income rise.
- Price and availability of related products- If the substitute good's price increases consumers will be willing to buy with lower price. Complement goods such as car and petrol have a joint demand-a change in the price or availability of one will have an effect on the other's demand.
- Fashion, taste and attitudes- Consumers are unique and have their particular likes and dislikes.

Supply

- Quantities of a product that suppliers are willing and able to sell at various prices per period of time, other things being equal.

Supply curve

- Supply curve represents the relationship between the quantity supplied and the price of the product.

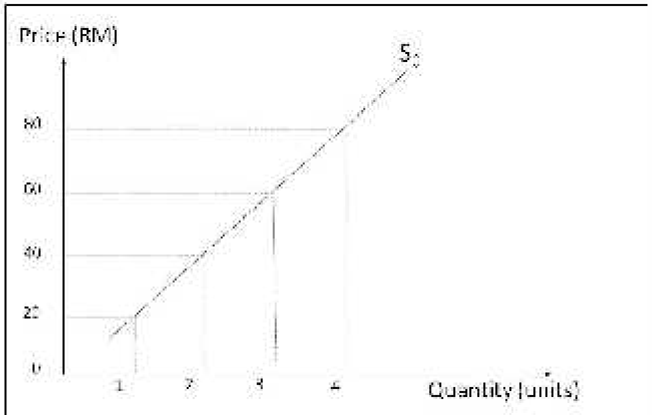


Figure 2.6: Supply Curve for Apples

This supply curve shows a positive relationship between price and quantity supplied.
Price changed cause the change in quantity supplied.
How many apples would be supplied at different prices.

Factors influencing supply

- Costs: Supply decisions taken by companies are invariably driven by the costs of producing and distributing their products to customers.
- Size and nature of the industry: If the industry is growing in size, then more will be supplied to the market. This growth will bring increase in competition and prices may fall resulting in some firms leaving the industry.
- Change in price of other products: Firms need to be continuously aware of competitors. If a competitor lowers its price, it could mean that less will be supplied by other firms who keep their price unchanged. If the competitor increases its price, other firms might be able to supply more provided they can keep their costs under control.
- Government policy: A new tax on a product will result in a reduction in supply; a subsidy will usually result in an increase in supply.
- Other factors: Weather condition can affect in agricultural markets.