



What is A Market?

- A market is simply a place where buyers and sellers meet, in order to exchange goods and services for money
- Buyers will **DEMAND** products and services
- Sellers will **SUPPLY** products and services
- Therefore to look at how a market works we must investigate how demand and supply work





Demand

- Demand can be defined as:

“the quantity of a good or service that buyers (consumers) wish to purchase at each conceivable price”

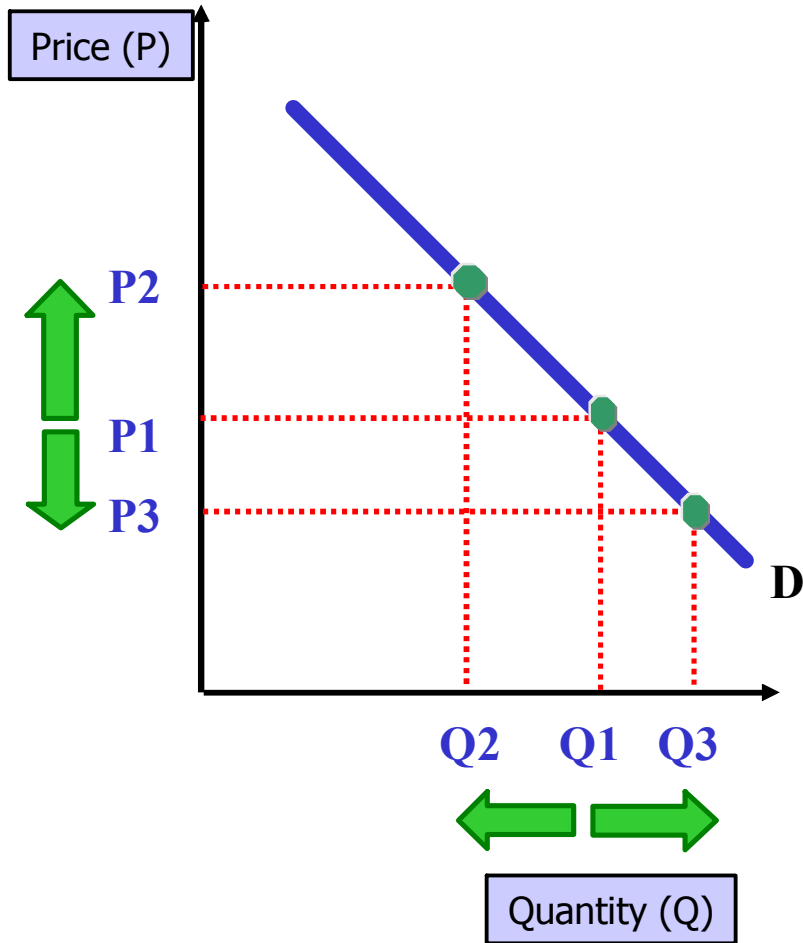
- The Law of Demand states that:

“Any increase in the price of a product will result in a fall in the quantity that consumers are willing to buy”

- This relationship is usually shown on a **DEMAND CURVE**



The Demand Curve

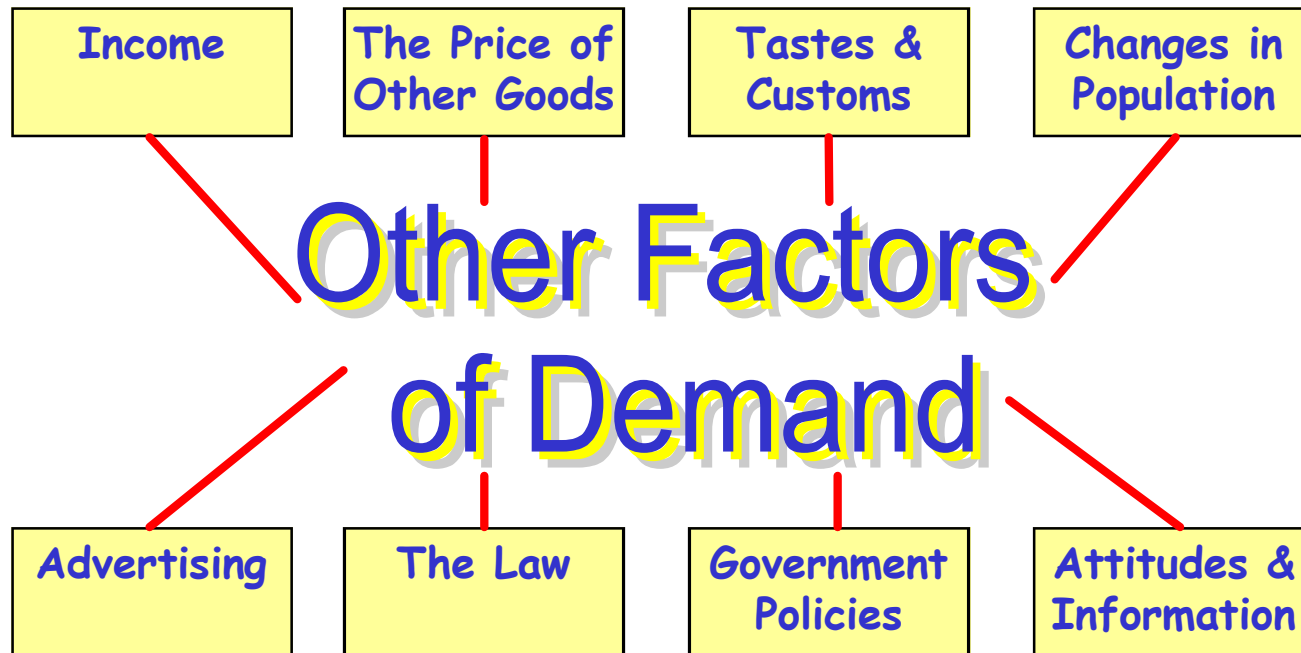


- The demand curve shows how quantity demanded responds to a change in the goods own price
- A fall in market price ($P1 \rightarrow P3$) causes an increase in the quantity demanded ($Q1 \rightarrow Q3$)
- A rise in market price ($P1 \rightarrow P2$) causes a fall in the quantity demanded ($Q1 \rightarrow Q2$)



The Factors of Demand

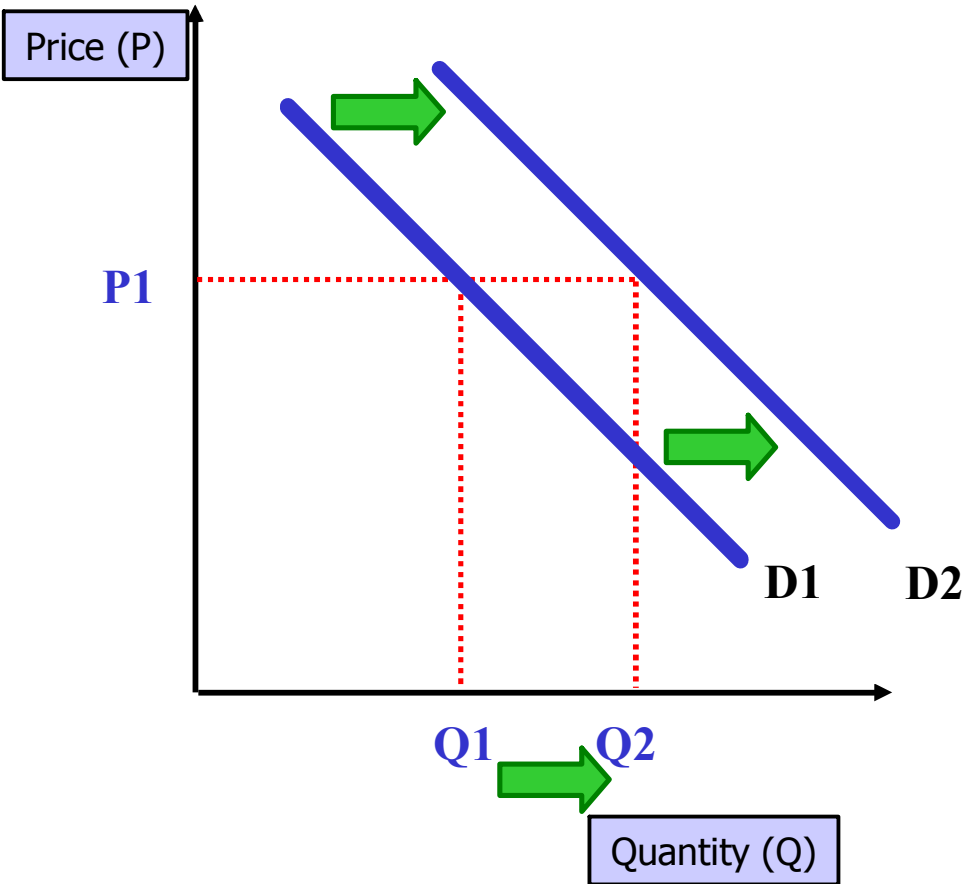
- Any change in price results in a shift **ALONG** the demand curve
- Other factors will also have an effect on demand:



- If these factors change **the demand curve itself will shift**



Shifting The Demand Curve



- The diagram demonstrates an **INCREASE** in demand
- This may be caused by:
 - Increase in consumer population
 - Increase in income
 - Consumer tastes shift toward the good in question
 - The price of substitutes rises
 - The price of a complementary good falls
 - The Bank of England cuts i/r
- Note that a **DECREASE** in demand would shift the curve from D2 to D1



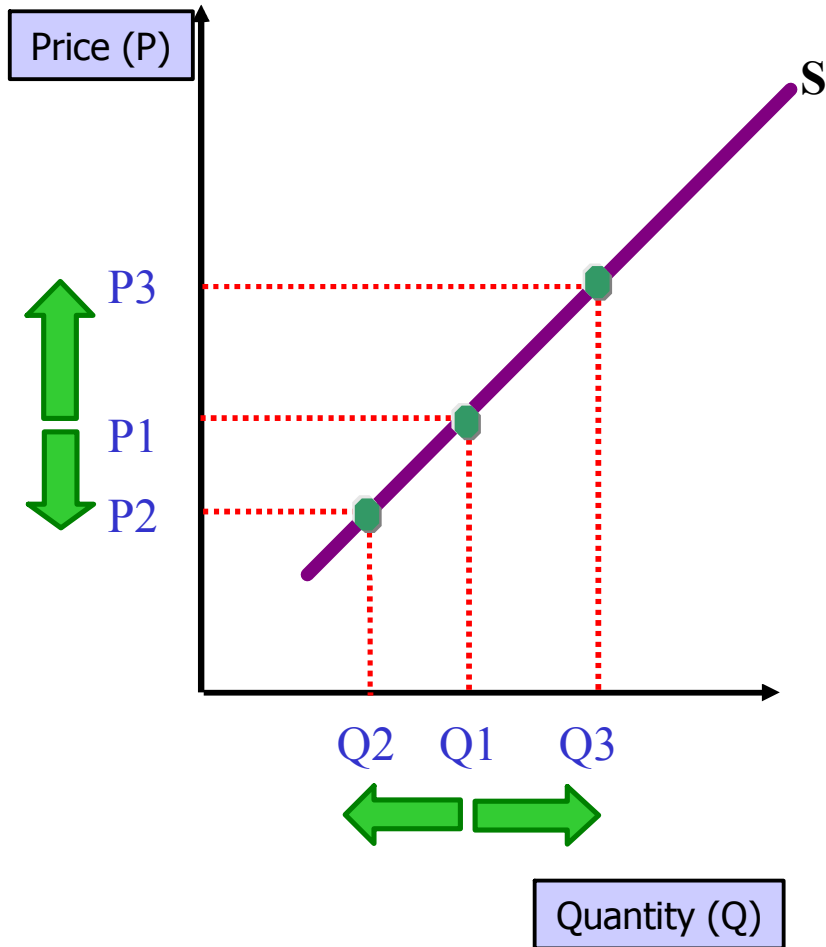
- Supply can be defined as:

“the amount of a product that suppliers (sellers) offer for sale at a given price”

- Usually firms will be willing to supply more as the price increases
- This is because they make more profit on each unit sold
- This relationship is usually shown on a **SUPPLY CURVE**



The Supply Curve



- The supply curve shows how the quantity supplied responds to a change in the price of the good
- A fall in market price ($P_1 \rightarrow P_2$) causes a fall in the quantity supplied ($Q_1 \rightarrow Q_2$)
- A rise in market price ($P_1 \rightarrow P_3$) causes an increase in the quantity supplied ($Q_1 \rightarrow Q_3$)



The Factors of Supply

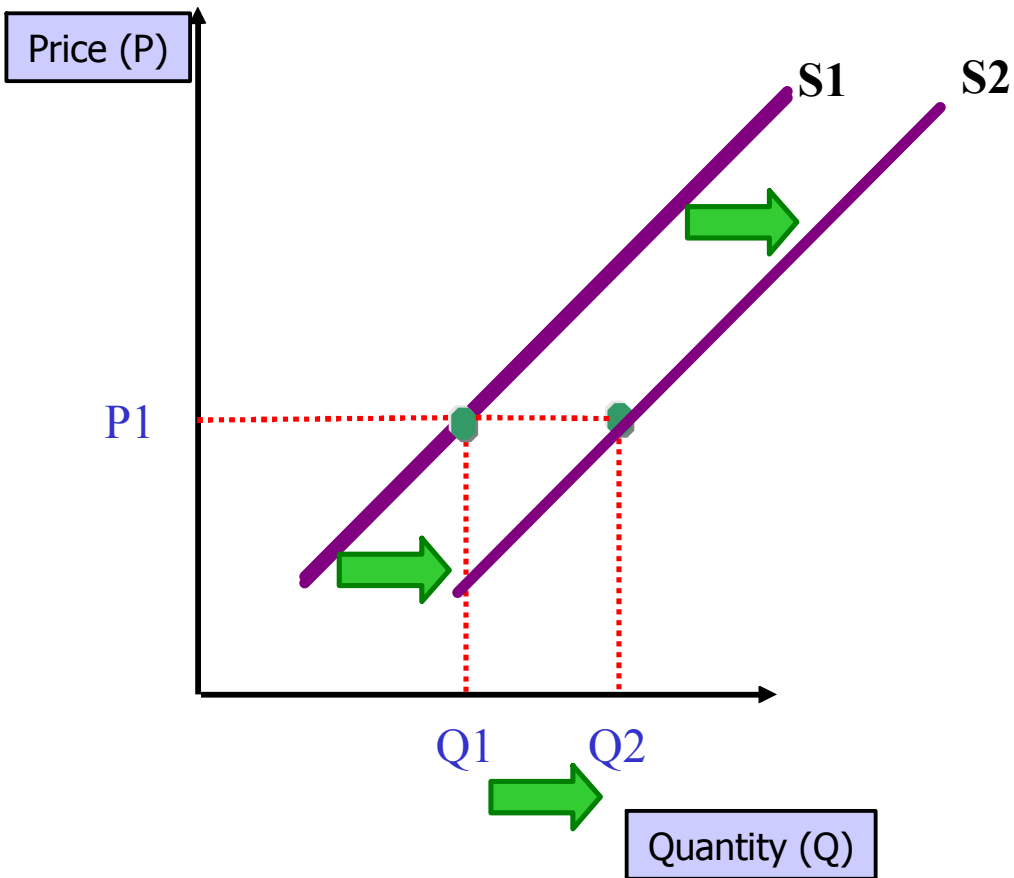
- As with demand, any change in price results in a shift **ALONG** the supply curve
- Other factors will also have an effect on supply:



- However, if these factors change **the supply curve itself will shift**



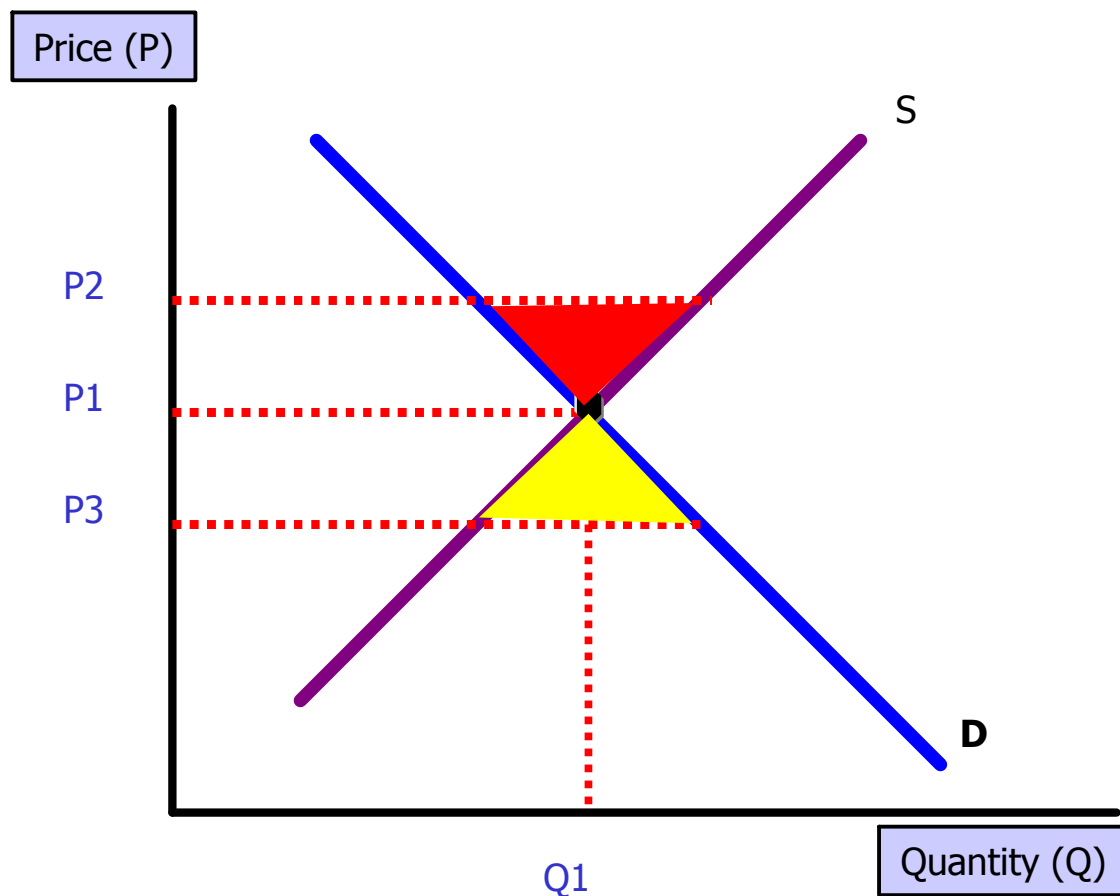
Shifting The Supply Curve



- The diagram demonstrates an **INCREASE** in supply
- This may be caused by:
 - Changes in production costs
 - Changes in producer taxes and/or subsidies
 - Changes in technology
 - The weather/climate (primary commodities)
 - The number of producers in the market
- Note that a **DECREASE** in supply would shift the curve from S2 to S1



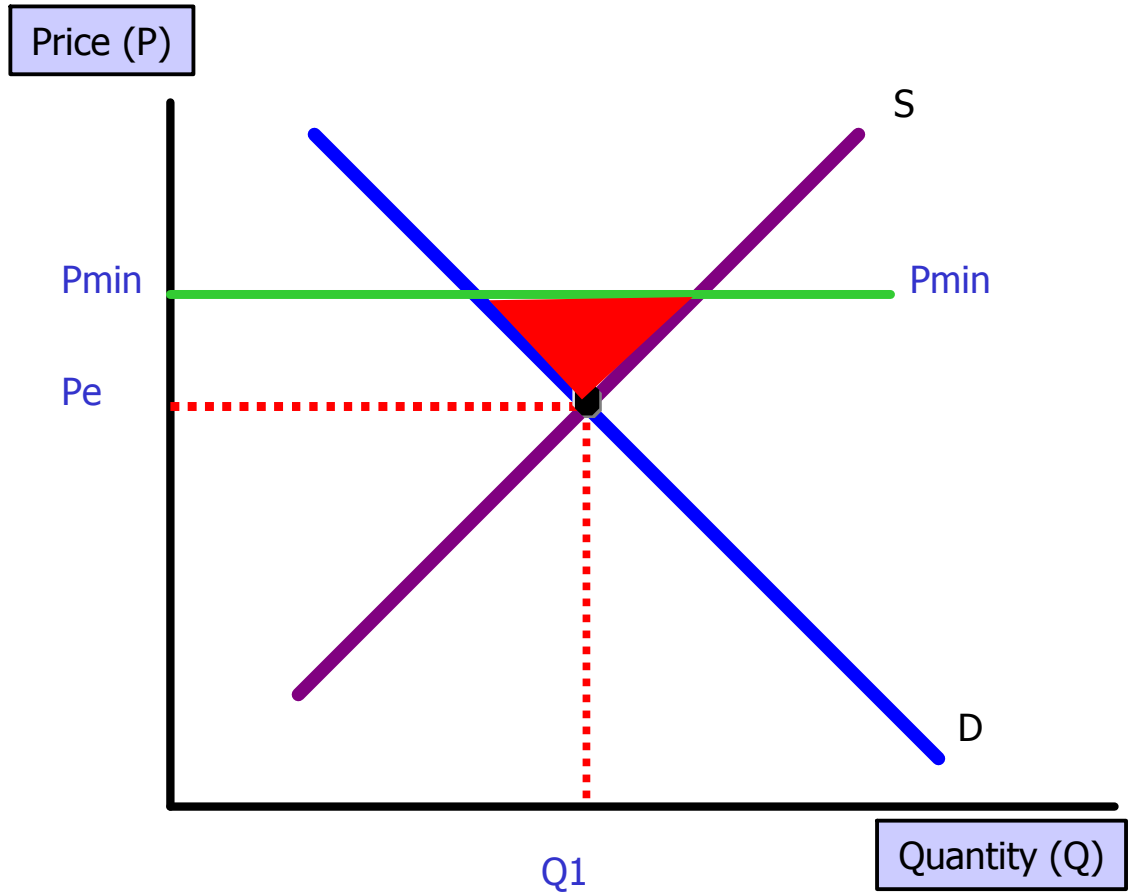
Market Equilibrium - Determining Price



- Equilibrium established when:
demand = supply (P_1)
- At P_2 there is excess supply ($S > D$)
- At P_3 there is excess demand ($D > S$)
- **In theory every market should always be in equilibrium. Why?**



Market Failure



- Market failure is where **excess supply** or **excess demand** remain for the long-term
 - It was argued that the minimum wage would cause market failure **IF** it was set higher than the equilibrium
- This can be seen on the diagram