

# Economics: Supply and Demand

# Today you are making your own Economics Dictionary

- Two pieces of blank paper
- Fold together in half (hamburger style)
- You have a set of graphs. Don't glue them in until instructed to do so.

Title Page:

“Economics Dictionary”

Name and period

# ADD DEFINITION TO DICTIONARY

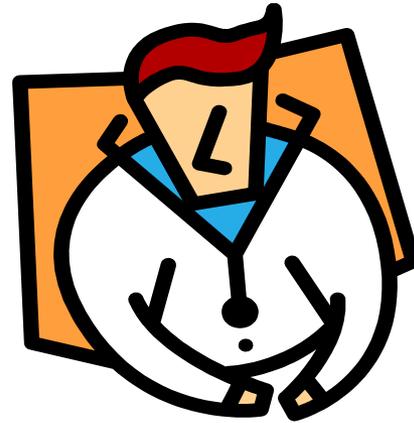
Economics- the study of how we use limited resources to fulfill unlimited needs and wants

Examples:

Goods



Services



Resources



# The Basic Economic Problem

People have **Unlimited Wants**

- Food, clothing, shelter, schools, hospitals, cars, transportation

But **Resources** are **Limited**

- Land, soil, minerals, fuels, people, money, technology

ADD DEFINITION TO DICTIONARY

Scarcity- we don't have enough resources to produce all of the things we would like to have

- Happens to individuals, cities, states, and countries

# How is Price Determined?

Price is determined by an agreement between the buyer and seller.

1's- you are the seller- you want to sell your partner this delicious Coke for as much \$ as possible

2's- you are the buyer- you want to buy the delicious Coke from your partner for as little \$ as possible

THE CATCH: You must come to an agreement. You have 1 minute!  
GO!



What price did you decide on?

Economics is about that give and take: how we use limited resources (our Coke) to fulfill unlimited needs and wants (we're thirsty!)





# Law of Demand



Who would buy the candy bar if it cost only \$0.50?

...if it cost \$1?

...if it cost \$2?

...if it cost \$4?

...if it cost \$8?

PRICE	QUANTITY DEMANDED
\$.50	
\$1	
\$2	
\$3	
\$4	
\$8	

# Law of Demand

ADD DEFINITION TO DICTIONARY

Law of Demand- if the price  $\uparrow$  demand  $\downarrow$  ,  
or if price  $\downarrow$  demand  $\uparrow$

Paste in graphs. Look at top “Demand” graph.

In plain English:

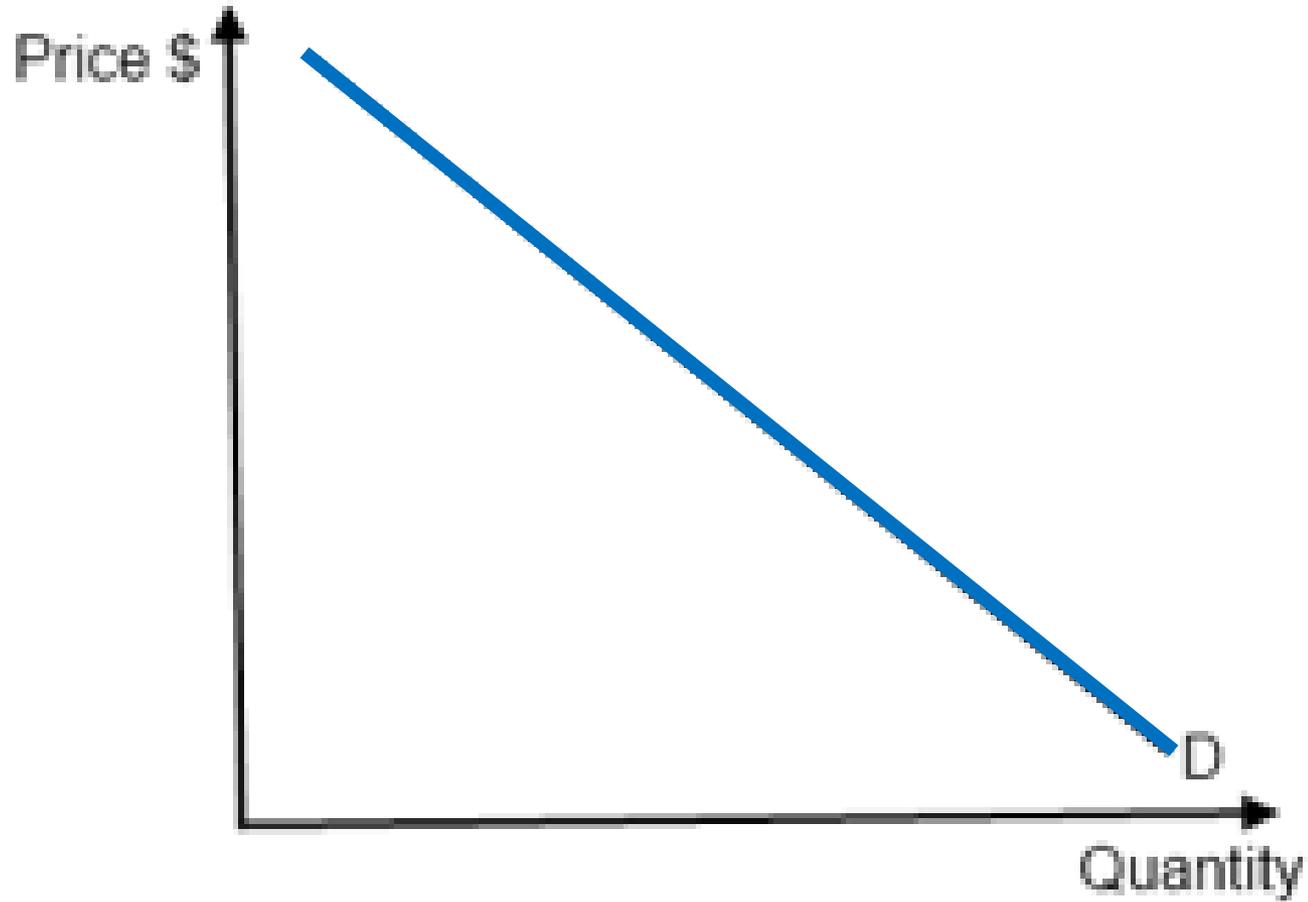
If candy bars are CHEAP, then I’m about to buy a whole lot of candy bars!

# Law of Demand

- Plot points on Demand graph using **BLUE** pen
- Connect points to make a demand line.
- This is called the demand curve.

PRICE	QUANTITY DEMANDED
\$.50	25
\$1	15
\$2	10
\$4	5
\$8	1

# Law of Demand



# Law of Supply

ADD DEFINITION TO DICTIONARY

Law of Supply - if the price  $\uparrow$  supply  $\uparrow$ ,  
or if price  $\downarrow$  supply  $\downarrow$

Look at middle “Supply” graph.

In plain English:

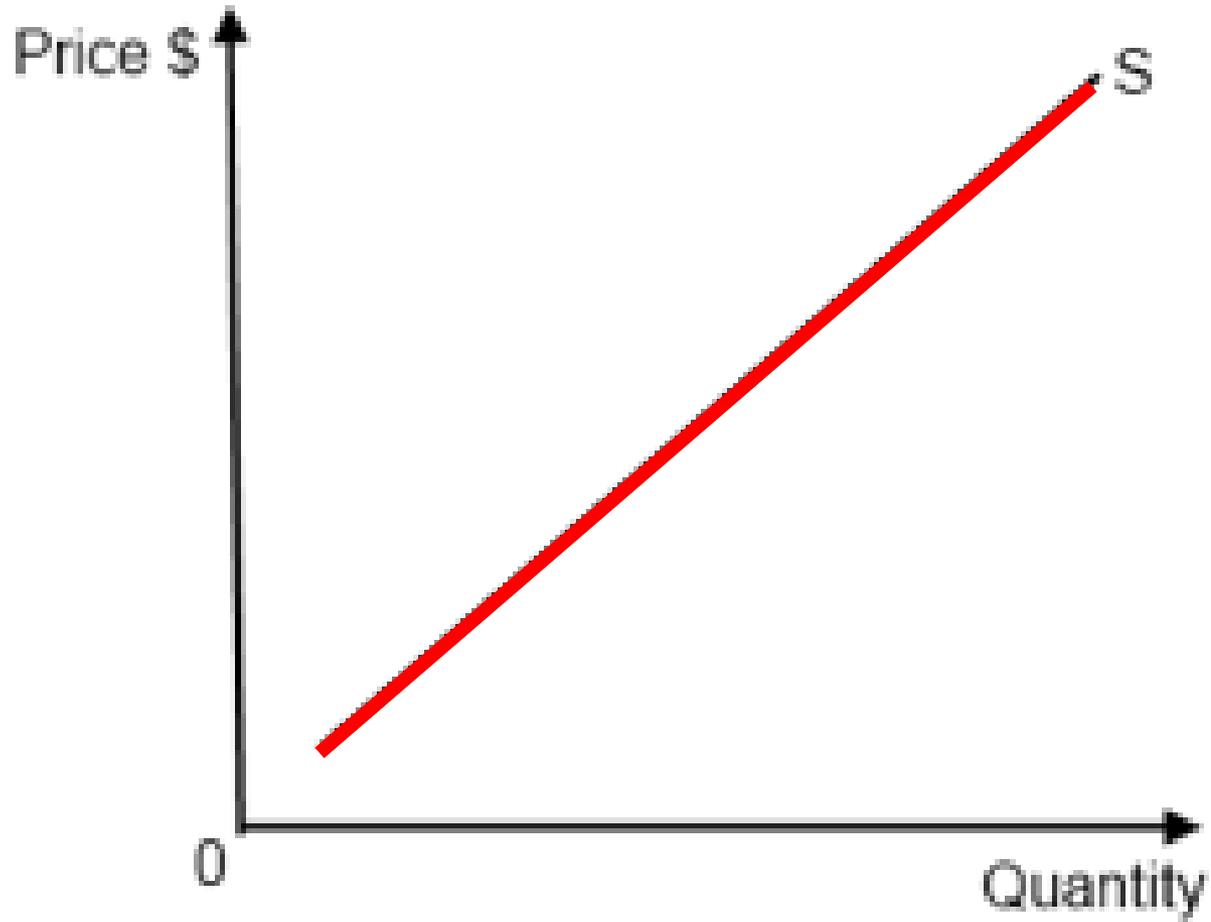
If I can sell a candy bar for \$10 then I want to sell a LOT of candy bars! If I can only sell my candy bars for \$0.25 then I'm not interested in selling a lot. How am I supposed to make money like that??

# Law of Supply

- Plot points on Demand graph using **RED** pen
- Connect points to make a supply line.
- This is called the supply curve.

PRICE	QUANTITY SUPPLIED
\$.50	1
\$1	5
\$2	10
\$4	15
\$8	25

# Law of Supply



# Equilibrium

## ADD DEFINITION TO DICTIONARY

Equilibrium: Where buyers and sellers agree on a price. On a graph, this is where the demand and supply curves intersect.

Look at bottom “Supply and Demand” graph

In plain English:

- If the buyer wanted to buy for \$1 and the seller wanted to sell the candy bar for \$5, nothing would happen.
- But, if they could come to an agreement, a sale would be made.
- In economics, we call this the equilibrium.

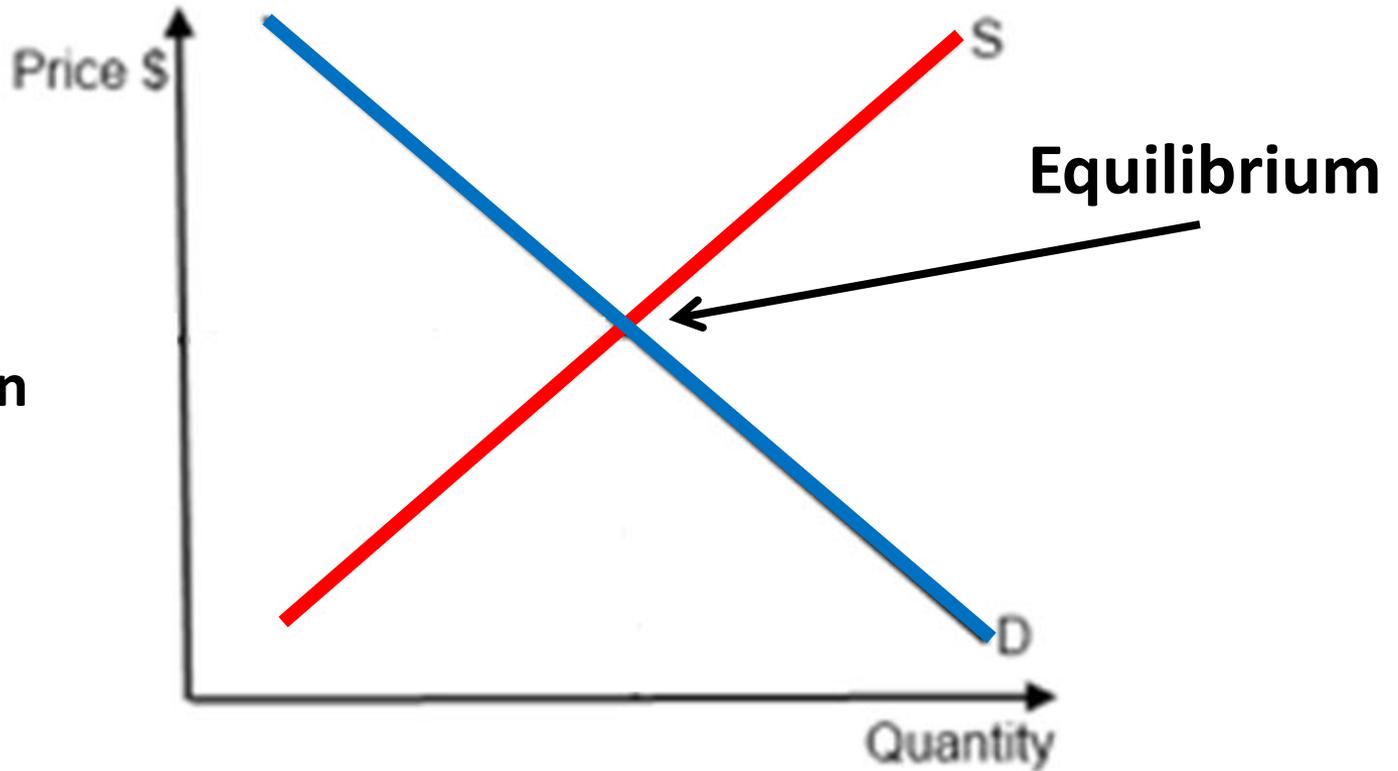
With **BLUE** pen: Plot and connect Demand curve

With **RED** pen: Plot and connect Supply curve

PRICE	QUANTITY DEMANDED
\$.50	25
\$1	15
\$2	10
\$4	5
\$8	1

PRICE	QUANTITY SUPPLIED
\$.50	1
\$1	5
\$2	10
\$4	15
\$8	25

# Equilibrium



Now draw an arrow and label your point of equilibrium.

# Surplus

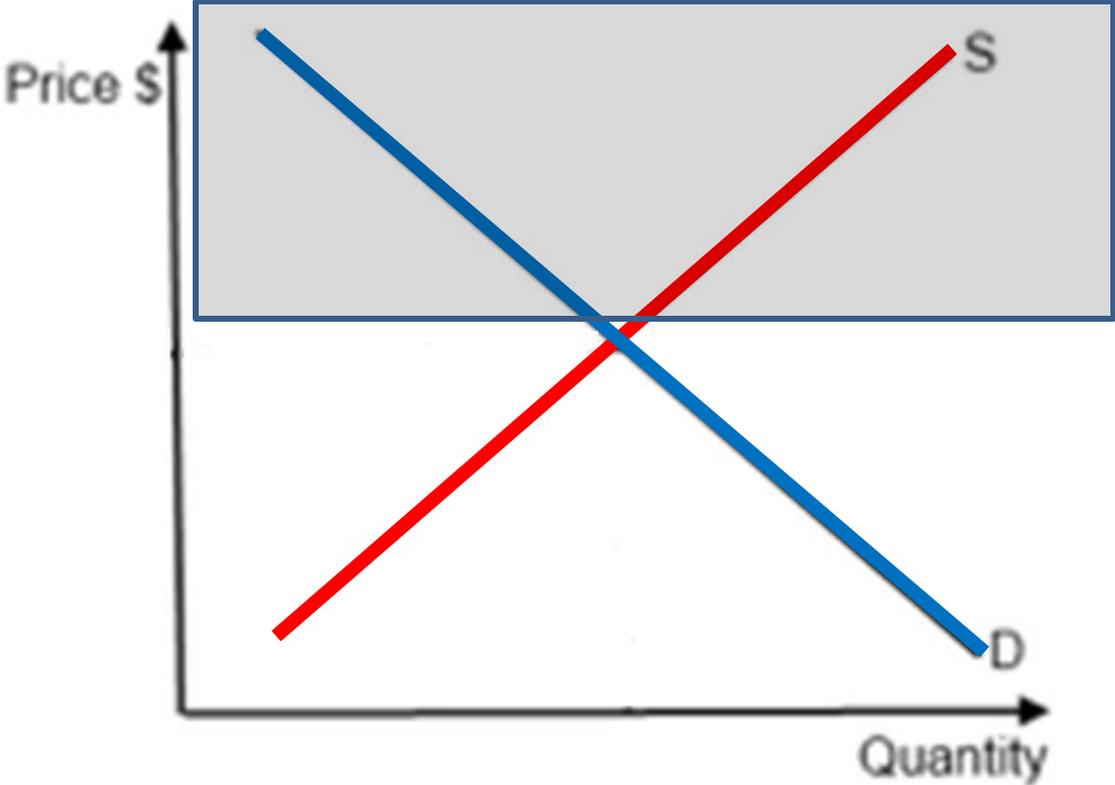
ADD DEFINITION TO DICTIONARY

Surplus- a situation where the quantity supplied is more than the quantity demanded

In plain English:

My company came out with a new product, but no one will buy it at the price we want to sell. We have more than what people want to buy.

# Surplus



# SURPLUS- Real Life Example

The price for a new gaming system is around \$600 and you can find them at every Wal-Mart or electronics store in the country.

The suppliers aren't willing to lower their prices and obviously the demand isn't high enough at those prices since there are still boxes on the shelves.

How would you fix it?  
Suppliers would need to lower their price to find equilibrium with demand.



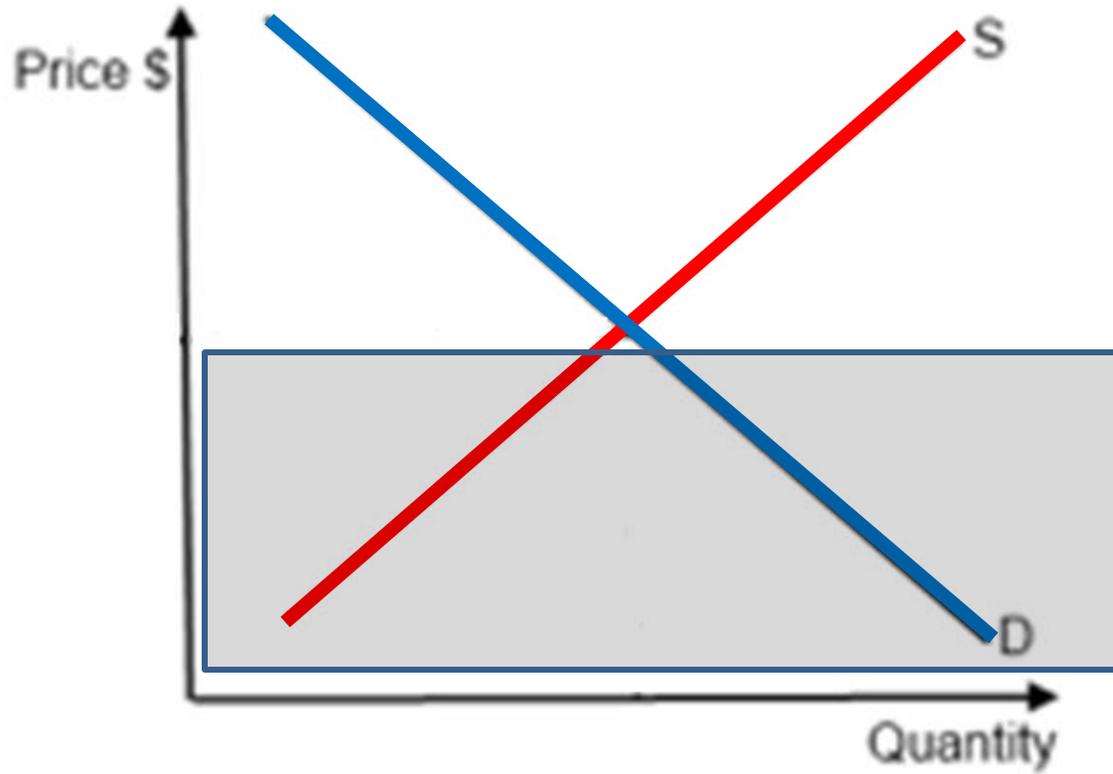
# Shortage

Shortage- a situation where quantity supplied is less than the quantity demanded

In plain English:

There's a hurricane headed toward Florida. You go to the store to find that the shelves are already picked bare. We have less than what people want to buy.

# Shortage



# Shortage- Real Life Example

The current price for a gaming system is around \$300, but you cannot find them in a lot of stores. At this price, consumers are willing to buy a lot more than what suppliers are willing to make. Suppliers can't just raise their price now, so there will continue to not be enough.

How would you fix it?

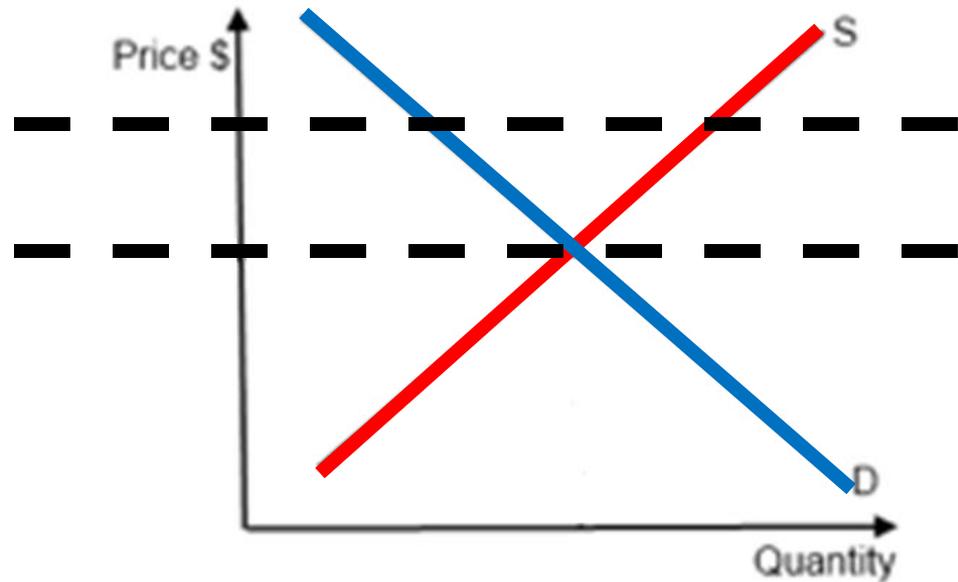
Suppliers should have charged a higher price to find equilibrium with demand.



# Putting it all together

If price is here, there is too much supply and too little demand (SURPLUS).

Need to lower price to find equilibrium.



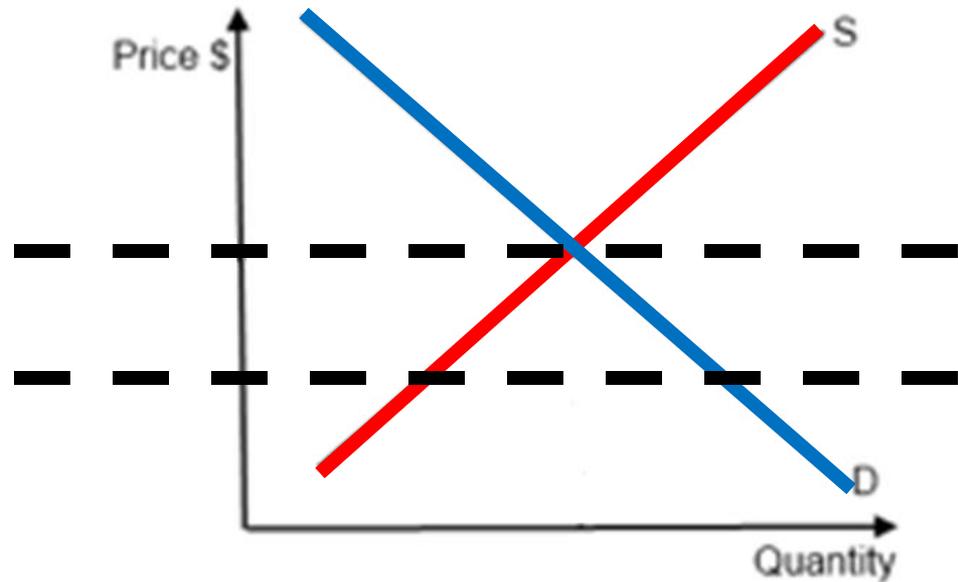
# Putting it all together

If price is here, there is too much supply and too little demand (SURPLUS).

Need to lower price to find equilibrium.

If price is here there is too little supply and too much demand (SHORTAGE).

Need to raise price to find equilibrium.



# Opportunity Cost

ADD DEFINITION TO DICTIONARY

Opportunity Cost- what you give up when you make a choice to buy something else

Write one personal example under your definition.

Examples:

A city chooses to spend money on park improvements instead of fixing sidewalks.

Because I choose to buy new sneakers, I don't have enough money to buy something else.