What is Demand?

The desire, ability, and willingness to buy a product .

Introduction to Demand

Microeconomics – the area of economics that deals with behavior and decision making by small units, such as individuals and firms.

* When you open up a business you need to see if there is a demand.
* Demand Schedule –
* Demand Curve –
* Law of Demand –
	+ Market Demand Curve
	+ Marginal Utility
	+ Diminishing marginal utility

What is Supply

The amount of a product that would be offered for sale at all possible prices that could prevail in the market.

Law of supply – principle that suppliers will normally offer more for sale at high prices and less at lower prices.

Supply

Supply Schedule –

Supply curve –

Market supply curve –

Change in Quantity Supplied

Quantity supplied –

Change in Quantity Supplied –

Change in Supply

Cost of input, Productivity, Technology, Taxes and subsidies, Expectations, Govt. Regulations, # of sellers

Elasticity of Supply -

Theory of Production, Cost, Revenue and Profit Maximization

Theory of Production

Deals with the relationship between the factors of production and output of goods and services

Short run or long run

Law of Variable Proportions – Q of output will vary with one change in input

Stages of production – increasing returns, diminishing returns & negative returns

Cost, Revenue, and Profit

Fixed cost –cost of being idle

Variable cost – cost of operation

Total cost – fixed & variable & marginal

Total Revenue - # of units sold multiplied by the average price per unit

Break-even point – total products needed to be sold to cover total cost

Profit-maximizing quantity of output – marginal cost and revenue are equal

Prices as Signals

* Advantages of Prices –
* \*Help decide the What, How and For Whom
* \*Prices are neutral, flexible, no cost of administration and it has always been there
* Allocations w/o Prices – rationing and ration coupon
	+ Problems of Fairness
	+ High Administrative Cost
	+ Diminishing Incentive
* Prices as a system - surplus, shortage, equilibrium price = changes in supply and demand
* Social Goals vs. Market Efficiency – Price ceilings, price floors, price supports (loans & deficiency payments)