

YESHWANTRAO CHAPHEKAR COLLEGE, PALGHAR

PRESENTATION

ON

CHAPTER- 2. MARKET DEMAND AND SUPPLY

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INTRODUCTION

- ▶ One of the most important areas of study in business economics is the **market**.
- ▶ **Price** of a product and its **sales** determines the **total revenue**, from which TC is deducted to arrive at a firm's **profit or loss**.
- ▶ A business enterprise's survival, success and failure depend upon what **price the market determines** for its product.
- ▶ In a market price is determined by-
 - a) The demand for the product
 - b) The supply of the product

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EQUILIBRIUM PRICE

- ▶ The equilibrium price is that price at which demand is equal to supply.
- ▶ Every market tends to settle at this equilibrium price.
- ▶ In order to understand market equilibrium, we need to study market demand and supply.

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DEMAND

- ▶ In economics, demand signifies the desire for a good or a service backed by the **ability** and the **willingness** to buy the goods or service.
- ▶ Demand for a goods or a service is the function of its **Price**, consumer's income, taste and preferences, size of population, prices of substitutes and complementary products, etc are termed as **determinants of demand**.
- ▶ The relationship between the quantity demanded of a product and its price is studied under **demand analysis**.

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CONTINUED...

- ▶ The relationship between price and demand is inverse, assuming that the other determinants of demand remain constant.
- ▶ The quantity demanded of a commodity is always expressed in relation to a price and time period.
- ▶ Eg- 200 pair of shoes sold at price Rs 1500 per pair in a month by a shoe store.

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CONTINUED...

- ▶ A demand curves slopes downward because any reduction in price makes consumers:
 - a) Willing to substitute the commodity.
 - b) more able to buy the goods because lower price increase real income.

DEMAND SCHEDULE AND DEMAND CURVE

- ▶ According to the Law of Demand, if we assume that all factors, other than price, remain constant, we can derive a price-demand relationship in a functional form.
- ▶ A demand function for price can be expressed as
$$Q_{dx} = f(P_x)$$

Where, Q_{dx} = Quantity demanded of commodity x

P_x = Price per unit of commodity x

f denotes a functional relationship

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CONTINUED...

- ▶ The above demand function in a linear form can be expressed as :

- ▶ $Q_{dx} = a - b P_x$

- ▶ Where, a = quantity demanded when price is zero

b = correlation coefficient between quantity demanded and price.

CONTINUED...

- ▶ In the above equation,
 - a) a represents quantity demanded at zero price. It is a constant.
 - b) The term b represents change in Q_{dx} / change in P_x .
Note that b will be negative because of inverse relationship between price and quantity demanded.

Let us suppose, the demand equation is estimated as:

$$Q_{dx} = 100 - 10P_x$$

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SUPPLY

- ▶ Supply refers to the various quantities of a commodity which a producer will offer for sale at a particular time at various corresponding prices.
- ▶ Supply of a commodity, depends upon a number of factors like its **price**, price of related goods, cost of production , state of technology , infrastructure, government policies, natural factors, etc. of all the factors price is the most important.
- ▶ Therefore the **price-supply relationship** is used to derive the **Law of Supply**.

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CONTINUED...

- ▶ The law of supply states that there is a direct functional relationship between the quantity supplied of a commodity and its price, other things remaining constant.
- ▶ The supply curve typically slopes upward. Higher prices make producers –
 - a) more willing to supply
 - b) able to cover higher cost
- ▶ The relationship between price and supply is direct, assuming that the other determinants of supply remain constant.

SUPPLY SCHEDULE AND SUPPLY CURVE

- ▶ As per the Law of Supply, if we assume that all factors, other than price, remain constant, we can derive a Price-supply relationship in a functional form.

A supply function for price can be expressed as :

$$Q_{sx} = f(P_x)$$

Where, Q_{sx} = Quantity supplied of commodity x

P_x = Price per unit of commodity x

f denotes a functional relationship

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CONTINUED...

The above supply function in a linear form can be expressed as:

$$Q_{sx} = -c + d P_x$$

Where, c = quantity supplied when price is zero

d = correlation coefficient between quantity supplied and price.

CONTINUED...

Where,

a) c = Quantity supplied at zero. It will always be negative.

b) The term d represents change in Q_{sx} / change in P_x . Note that d will be positive because of the direct relationship between price and quantity supplied.

Let us suppose, the supply equation is estimated as :

$$Q_{sx} = - 40 + 30 P_x$$

**THANK
YOU**

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