

Chapter 4 The Market Forces of Supply and Demand (p. 51)

I. Introduction

II. Demand

III. Supply

IV. Market Equilibrium (today)

V. Disequilibrium (today)

VI. Scalping and Price Gouging (today)

VII. Comparative Statics Analysis (Thursday)

VIII. The Role of Prices (Thursday)



TIME FOR REVIEW





- Prices of related goods
- Income
- Expectations
- Population
- Preferences

Shift Factors of Demand

SUPPLY

- QUANTITY SUPPLIED
- THE LAW OF SUPPLY
- The supply of shaved heads and threshold values





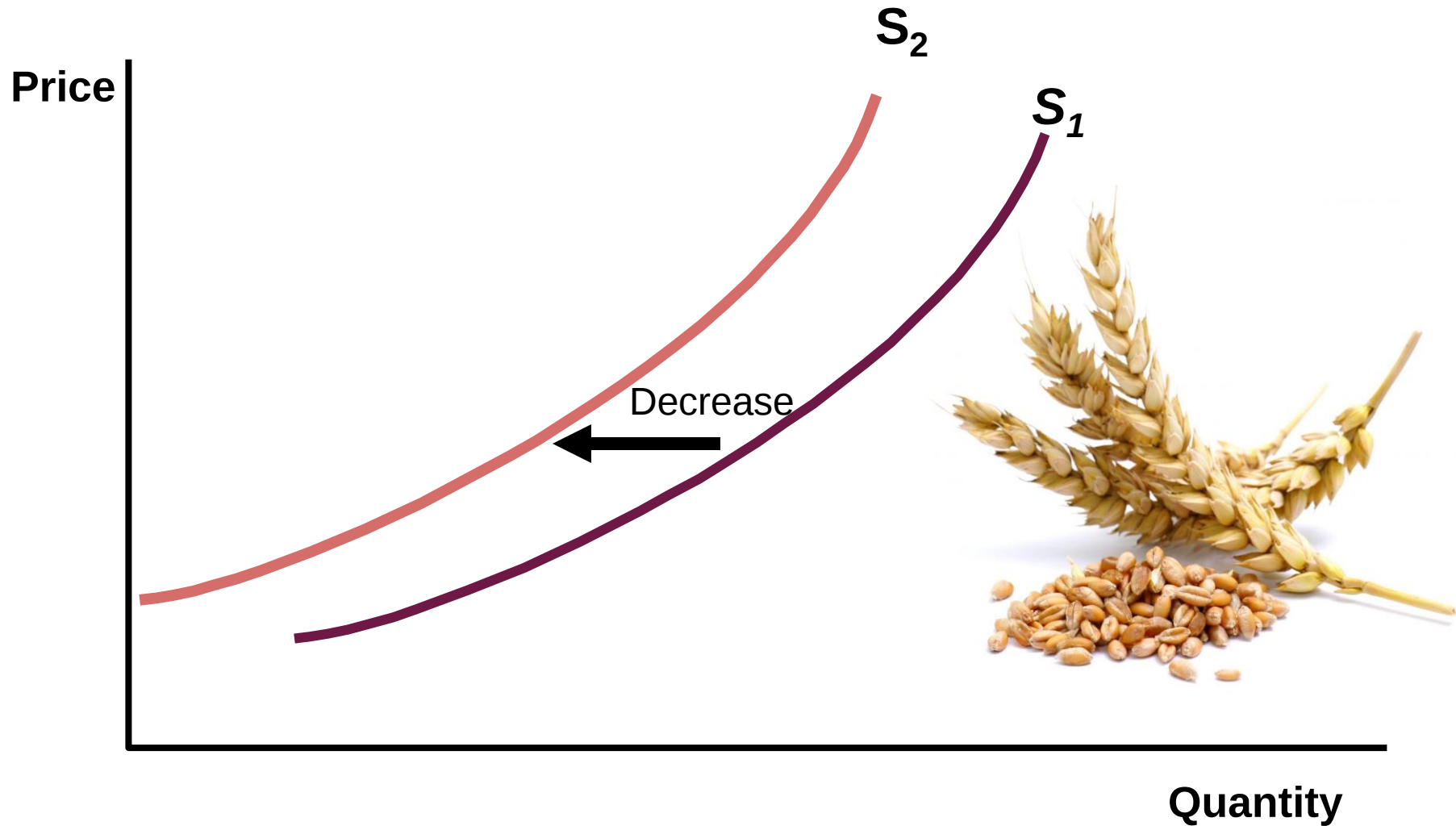
Determinants of Supply

- Input Prices
- Technology
- Expectations
- Taxes and Subsidies
- Number of Producers
- Disasters/Political Disruptions
- Prices of Goods Related in Production

7) Prices of good related in production, p. 66

i) Substitutes in Production

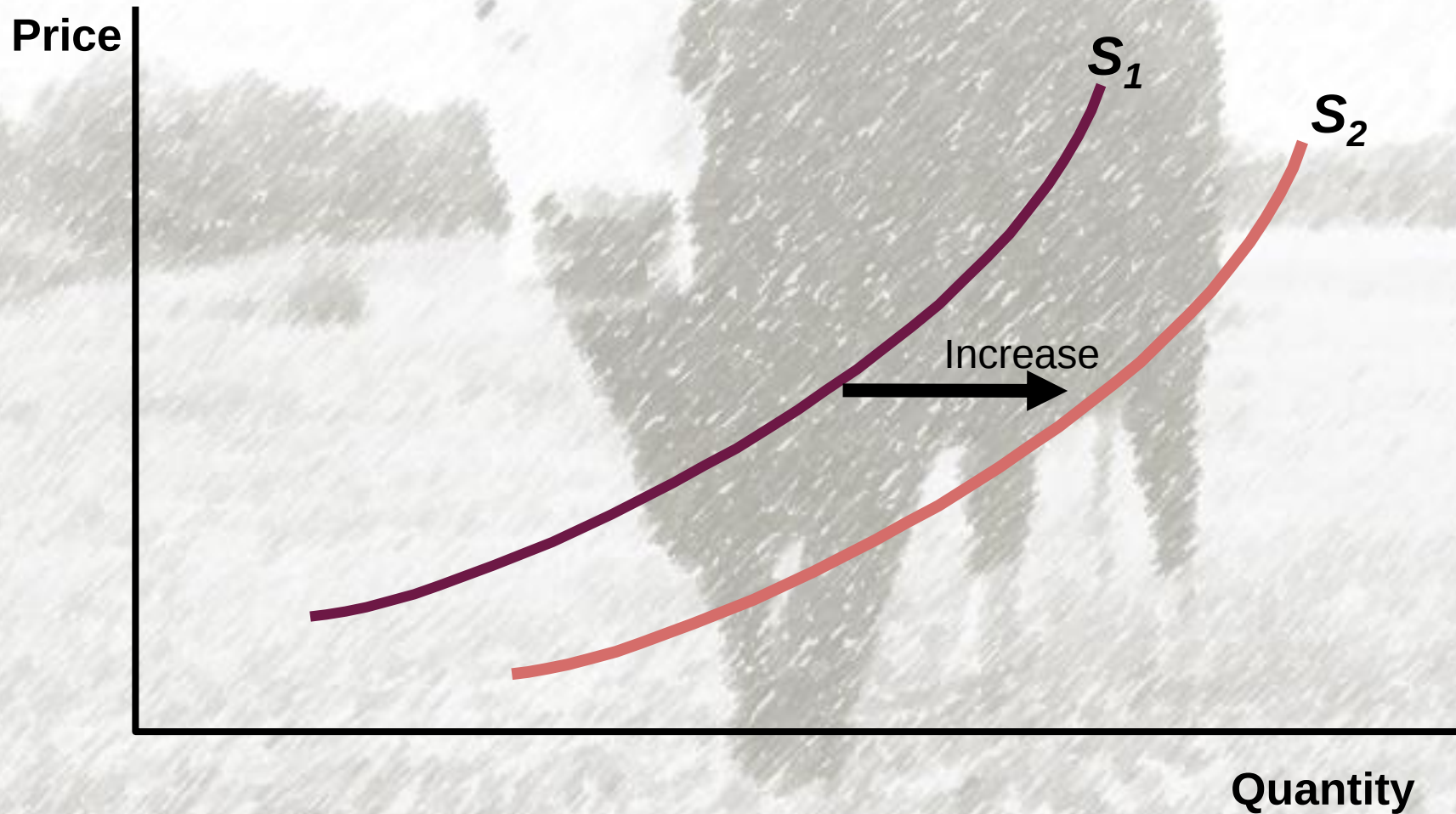
The market for wheat when the price of corn rises. (for biofuel use)



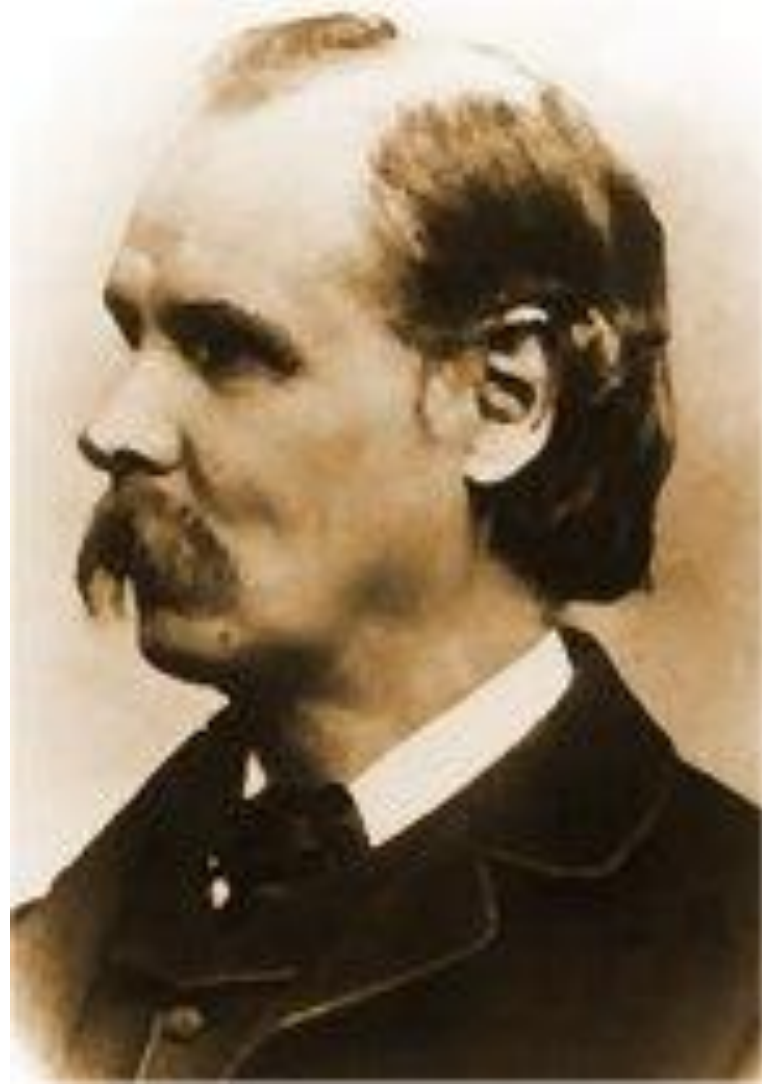
7) Prices of good related in production, p. 66

ii) Complements in Production

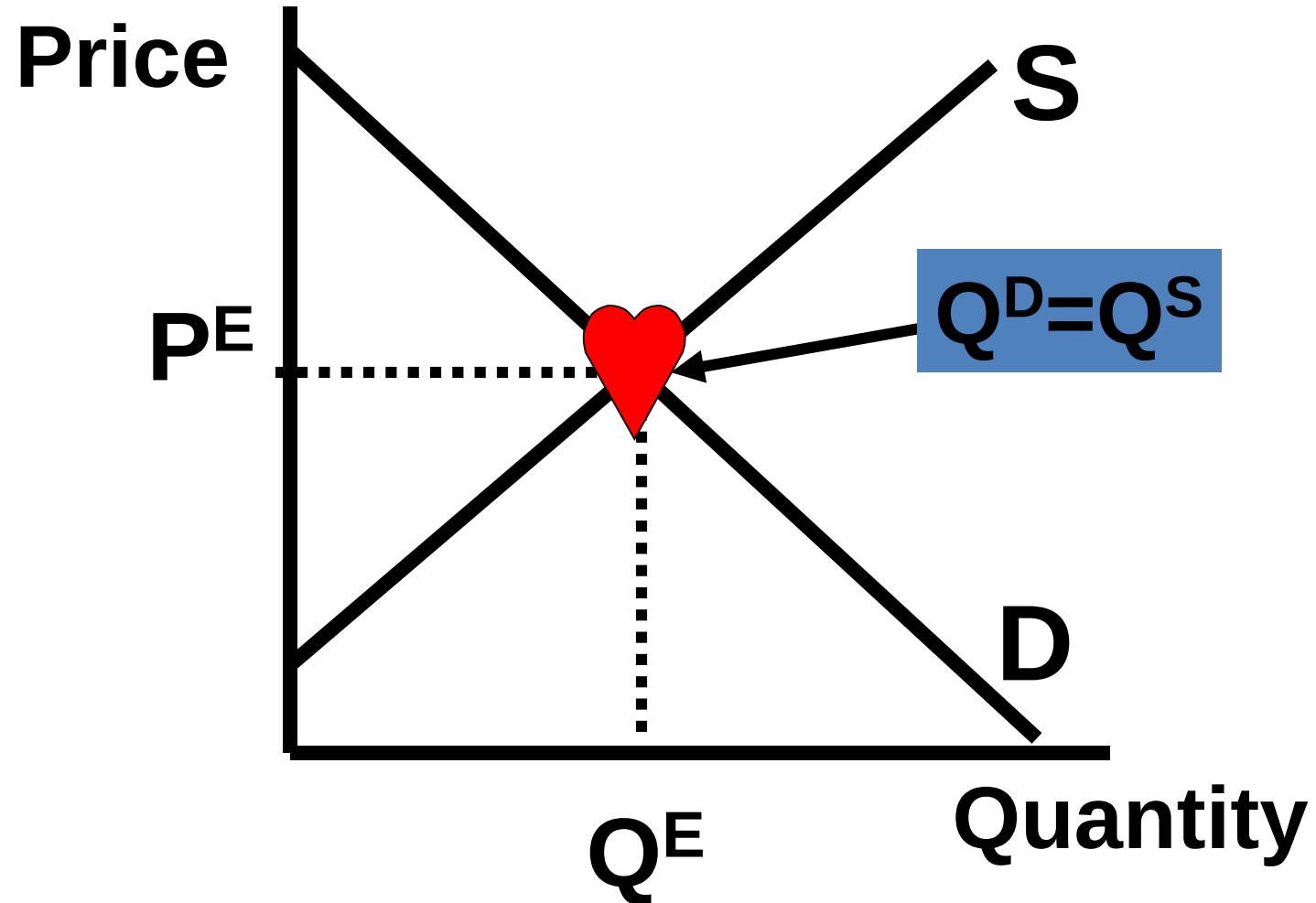
The market for raw leather when the price of beef rises.



We might as well
reasonably dispute whether
it is the upper or under
blade of a pair of scissors
that cuts a piece of paper,
as whether value is
governed by
[demand] or [supply].
- Alfred Marshall



IV. Market Equilibrium-Graphically, p. 67





Numerically, p.67

Price: Monthly rent per apartment	Q^D Apartments per month	Q^S Apartments per month
\$900	400,000	700,000
\$800	475,000	625,000
\$700	550,000	550,000
\$600	625,000	475,000
\$500	700,000	400,000
\$400	775,000	325,000
\$300	850,000	250,000

WHERE IS EQUILIBRIUM IN THIS MARKET?

At \$900 - surplus

Numerically

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WHERE IS EQUILIBRIUM IN THIS MARKET?

At \$700, Q^D=Q^S= 550,000

P^E = \$700

Q^E = 550,000

Numerically

Price: Monthly rent per apartment	Q^D Apartments per month	Q^S Apartments per month
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WHERE IS EQUILIBRIUM IN THIS MARKET?

At \$700, Q^D=Q^S= 550,000

P^E = \$700

Q^E = 550,000

Below \$700 - shortage

Algebraically, (no calculators), p. 68

- Demand Curve: $Q^D = 14 - 2P$
- Supply Curve: $Q^S = 4 + 3P$
- at equilibrium $Q^D = Q^S$
- Or $14 - 2P = 4 + 3P$
- Solve for P^E
- $14 = 4 + 5P$
- $10 = 5P$
- $10/5 = P^E = \$2$
- $Q^E = 4 + 3(2) = 10$



IClicker – REEF POLLING

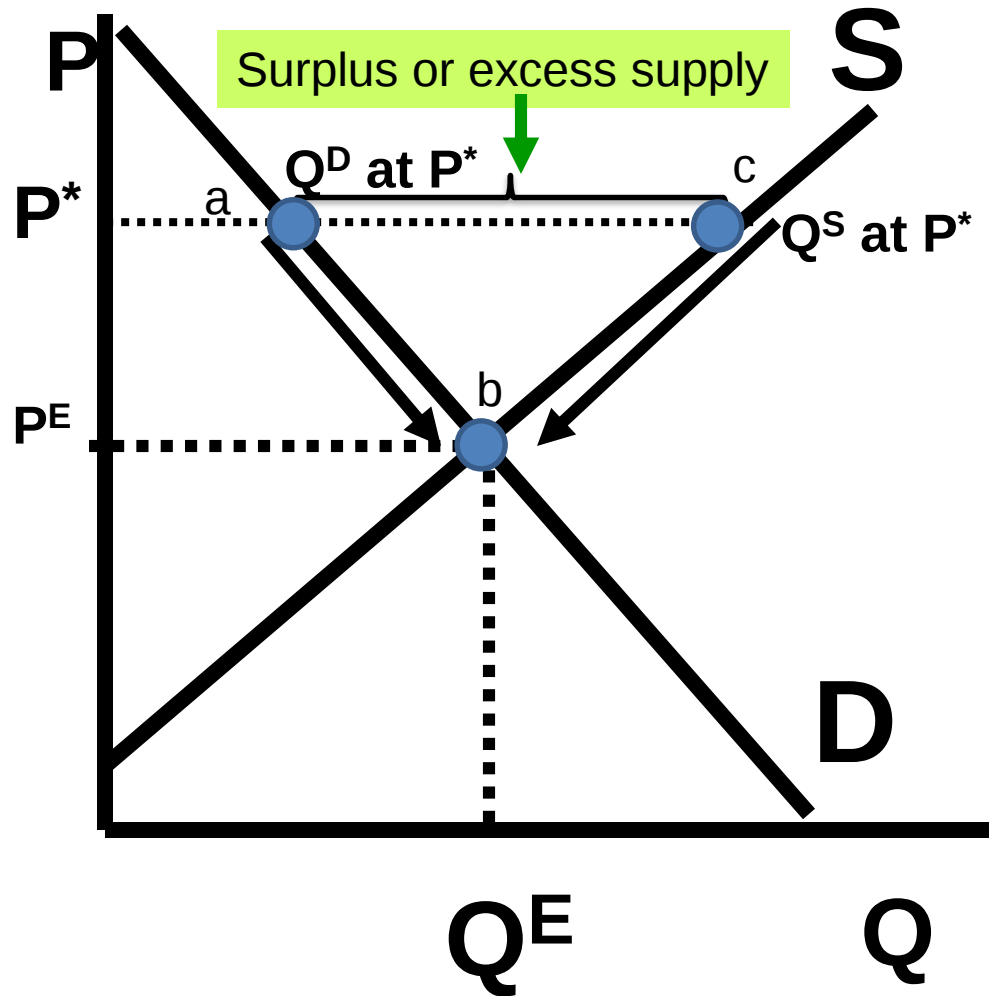


At a price of \$150 there is..

- A. No shortage or surplus
- B. A surplus of 1,000 units
- C. A shortage of 1,000 units
- D. A shortage of 3,600 units

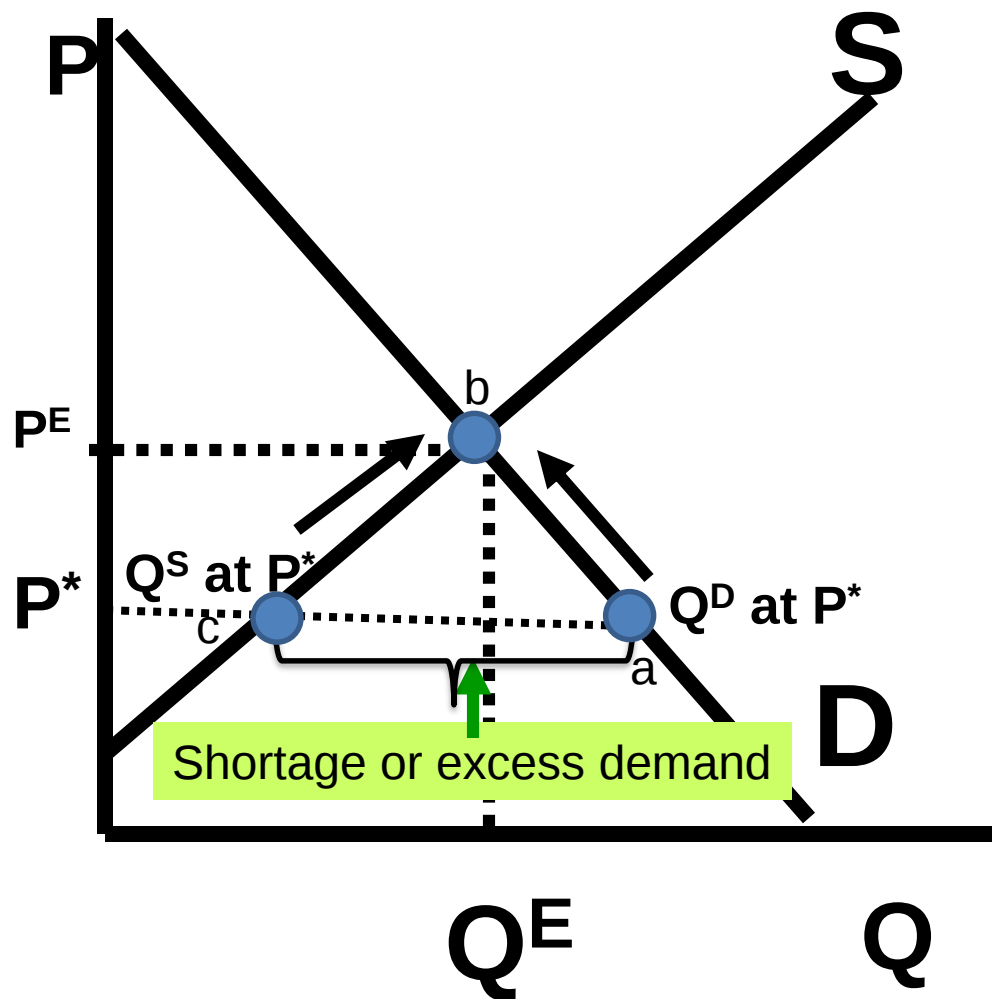
P (\$)	Q ^D	Q ^S
275	3,000	6,000
250	3,400	5,400
220	3,800	4,800
200	4,200	4,200
150	4,600	3,600
100	5,000	3,000

V. Disequilibrium in the Market, A. Excess Supply, p. 69 in packet



- At P^* , $Q^S > Q^D$
- Excess supply puts downward pressure on the price. i.e. producers having sales
- As the price falls,
- Q^D rises
- (a to b, law of demand)
- and Q^S falls
- (c to b, law of supply) to bring the market to equilibrium.

V. Disequilibrium in the Market, B. Excess Demand, p. 69 in packet



- At P^* , $Q^D > Q^S$
- Excess demand puts upward pressure on the price.
- As the price rises,
- Q^D falls
- (a to b, law of demand)
- and Q^S rises
- (c to b, law of supply) to bring the market to equilibrium.

IClicker – REEF POLLING



If Kroger Stadium was completely filled for the last home football game and some people who wanted to go could not get tickets, this is evidence that

- A. ticket prices are above the market equilibrium price.
- B. UK is maximizing the revenue from ticket sales.
- C. UK could make more revenue by raising ticket prices.
- D. The student section needs to be expanded.

Is scalping legal in Kentucky?



VI. Scalping and Price Gouging, p. 70

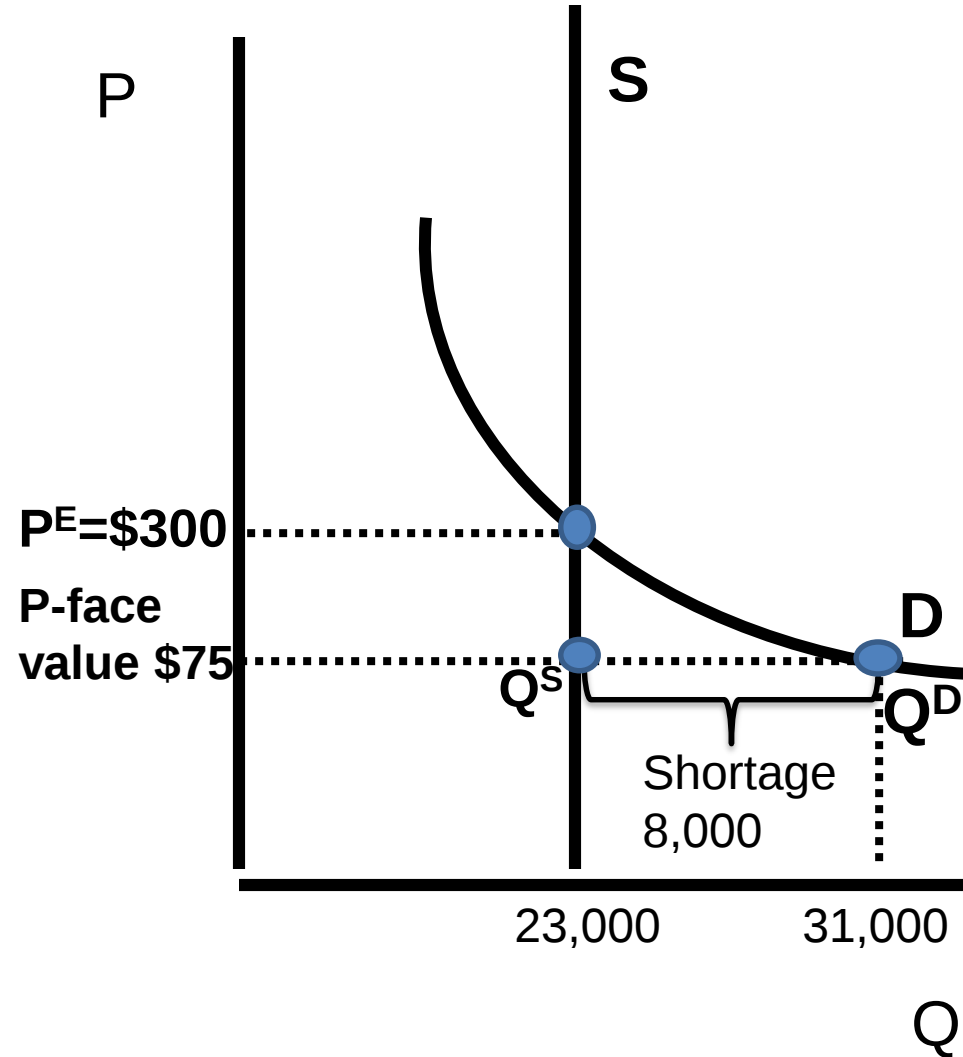
- Survey at Springsteen “The Rising” Concert, Oct. 6, 2003 in Philadelphia, PA. **Every ticket sold for \$75.**
- Interviewed 858 people in the 15 minutes before the start of the show.
- 20-25 percent of tickets scalped. Average resale price was \$300.

Alan Krueger
Princeton



Scalping – The Market for Events

- Initial ticket prices below true P^E
- Causes shortage
- Inefficiencies and costs due to shortages:
 - Waiting in line
 - Fake tickets
- Economic pros of scalping:
 - Helps P reach the true P^E
 - Alleviates shortage
 - More efficient outcome
 - Trade Creates Value



The Ticket Sales Lottery at Rupp Arena

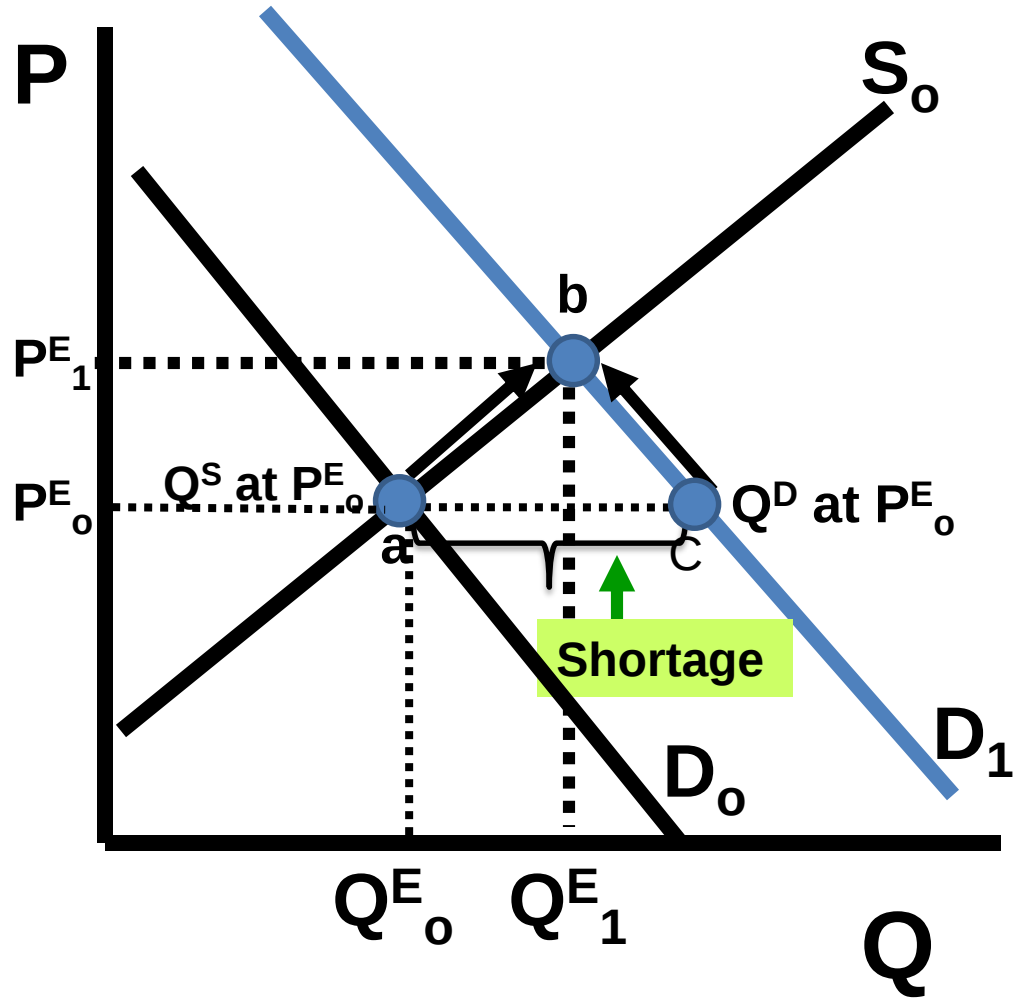


VII. Comparative Statics Analysis, p. 71

- What it is?
- Why we do it?
- One curve shifting
- Two curves shifting

Example 1: One Curve Shifting, p. 71

Market for SUVs when there is a significant decrease in gasoline prices



- At P^{E_0} , $Q^D > Q^S$
- Excess demand pushes price up.
- As price rises,
- Q^D falls (c to b)
- Q^S rises (a to b)
- Notice: S curve doesn't shift because D curve shifted.

Market for sport utility vehicles