\*Supply and Demand reflect **ability and willingness** to either supply or consume

\*change in quantity of either supply/demand is due to ONLY a change in PRICE

\*change in either supply/demand is due to factors OTHER than price. **See Below:**

|  |  |
| --- | --- |
| **Factors that Change Demand** | **Factors that Change Supply** |
| **T** – Tastes of preferences of consumers**R** – the prices of related goods (substitution effect and complement effect)**I** – income of buyers**B** – the number of buyers**E** – expectations of the future prices**\*Remember – Fiscal (gov’t actions involving money) and Monetary Policy (actions by the Federal Reserve) affects all of these factors.**  | **R** – Resource Costs (changes in factors of production)**O** – Other goods’ prices (substitutes in production and complementary (joint) products**T** – Taxes, subsidies, regulations (fiscal policy)**T** – Technology changes **E** – Expectations of suppliers **N** – Number of suppliers **\*Remember – Fiscal and Monetary Policy (this usually affects suppliers the most) affects all of these factors.**  |

EQUILIBRIUM PRICE AND QUANTITY

Equilibrium/Market Price: The price at which **supply and demand intersect**/are equal - a price that is established by the free market. The price at which suppliers are willing to sell and consumers are willing to buy for this same price. **(shown graphically as "p")**

Equilibrium/Market Quantity: The quantity for which the supply and demand for a product are equal **(shown graphically as "q")**

**When the shift occurs,** label the second equilibrium price and equilibrium quantity **p1** and **q1**.

**When the graph shifts for** one curve there is always a **movement along the curve** of the other curve.

**Example:** National Income rises. This is an increase in the **change in demand.** Consumers demand more, which raises the price (p to p1). Since there is now a change in price consumers are willing to pay, there is **a change in quantity supplied (q to q1)**. Suppliers are now supplying now at a higher price.

**Ambiguity (Ambiguousness) or Indeterminate:**

* When both demand and supply are changing, one of the equilibrium outcomes (price or quantity) is predictable and one is ambiguous (indeterminate)
* Before combining the two shifting curves, predict changes in price and quantity for each shift by itself **(it is best to draw two different graphs!)**
* The variable that is rising in one case and falling in the other case is your ambiguous prediction.

Example:

