

Econ 1115: Principles of Macroeconomics

Lecture 3: Demand and Supply

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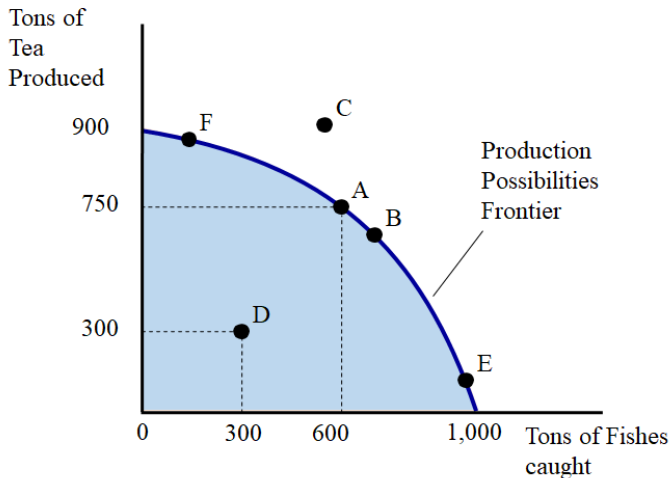
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Outline

- 1 Review
- 2 Demand
 - Shape of the demand curve
 - Shifting the demand curve

PPC



Specialization = corner solutions on the PPC

- What does this mean?

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For example:

During an 8-hour workday,

	Etsy bags	Trampolines
John	5	2
Quaid	3	4

Comparative Advantage

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Example: For each hour of work:

	Batteries	USB cables
Ava	10	4
Genevieve	2	2

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- We make a big assumption here - that opportunity costs are constant (PPC is a straight line).

Example problem: Jenny and Aziz are neighbors in a remote part of Australia and both can either choose to grow cotton or coffee.

	Cotton	Coffee	OC (cotton)	OC (coffee)
Jenny	10	2		
Aziz	2	1		

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- What was the third one? How are resources to be distributed?
- For most goods, the answer is the market system.
- The market is a group of buyers and sellers of one specific good or service. The buyers determine the demand for that good, and the sellers supply the good.
Organized vs not, i.e. actual physical location versus virtual online markets.

Let's look at the demand for a good for this class.

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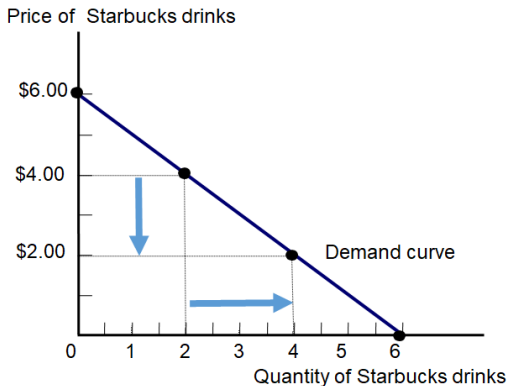
Price	Quantity
\$0.00	6
\$2.00	4
\$4.00	2
\$6.00	0

Table: Demand schedule for Starbucks drinks

The demand curve is the graphical representation of the demand curve.

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Plotting it on the graph we get the downward sloping demand curve. Movement along the curve



What does **ceteris paribus** mean?

Other things being equal.

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- Substitution effect

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- Income effect

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- Substitution effect
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- Diminishing marginal utility

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A change to any of the following shifts the demand curve

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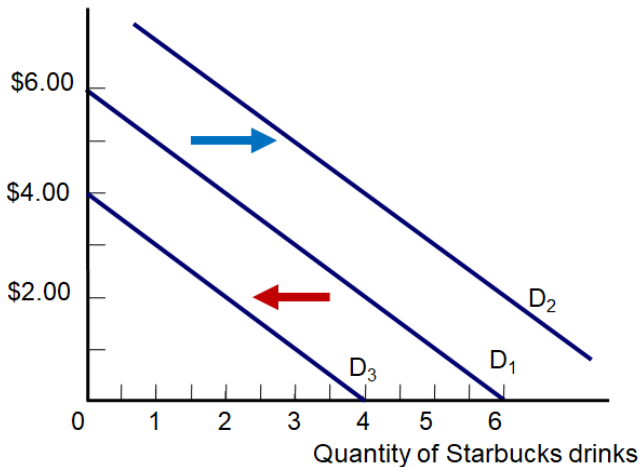
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- 3 Population or Market size
- 4 Prices of related goods (substitutes, complements)
- 5 Expectations

Price of Starbucks drinks



Market Demand

The market demand curve is obtained by summing all the individual demand curves horizontally.

1. The quantity demanded of a good is the amount that buyers are
 - a. willing to purchase.
 - b. willing and able to purchase.
 - c. willing, able, and need to purchase.
 - d. able to purchase.

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Answer: b. willing and able to purchase.

2. Which of the following would not shift the demand curve for mp3 players?

- a. a decrease in the price of mp3 players
- b. a fad that makes mp3 players more popular among 12-25 year olds
- c. an increase in the price of digital music downloads, a complement for mp3 players
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Answer: a. a decrease in the price of mp3 players

Groups!

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Please write down the name of each member of your group on a piece of paper and submit it to me.