

# Econ 1115: Principles of Macroeconomics

## Lecture 4: Supply and Markets

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May 9, 2019

# Outline

- 1 Review
- 2 Supply
  - Shape of the supply curve
  - Shifting the supply curve
- 3 Market equilibrium

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
- d. a decrease in the price of satellite radio, a substitute for mp3 players

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**Answer: a. a decrease in the price of mp3 players**

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- 3 Population or Market size
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- 5 Expectations

# Market Demand

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

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The supply schedule is a table that shows the relationship between price and quantity demanded.

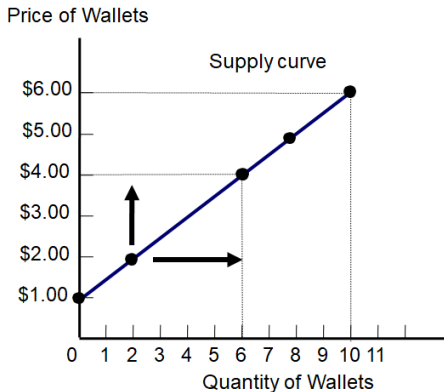
Price	Quantity
\$0.00	0
\$1.00	0
\$2.00	2
\$3.00	4
\$4.00	6
\$5.00	8
\$6.00	10

Table: Supply schedule for thin wallets

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

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Plotting it on the graph we get the upward sloping supply curve.



How about we do a supply curve of labor? (This is a little different than most other supply curves)



Is the supply curve upward sloping?

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**Usually yes!**

**Law of Supply**

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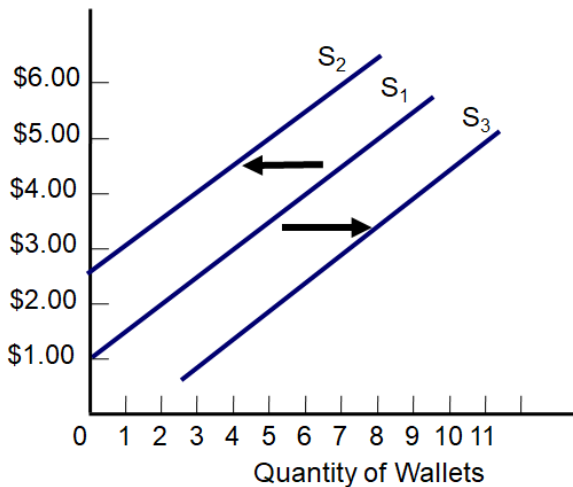
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A change to any of the following can shift the supply curve

- 1 Input/Factor prices
- 2 Technology
- 3 Number of sellers
- 4 Producer/Business expectations
- 5 Wars, natural disasters



## Price of Wallets



How is the supply curve affected under the following scenarios?

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- Wages for workers rise significantly.

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- Wages for workers rise significantly.
- The discovery of a new efficient bottling process that makes it much cheaper for Coca-Cola and other soda manufacturers.

# Market Supply

Like the market demand curve, the market supply curve is obtained by summing all the individual supply curves horizontally.

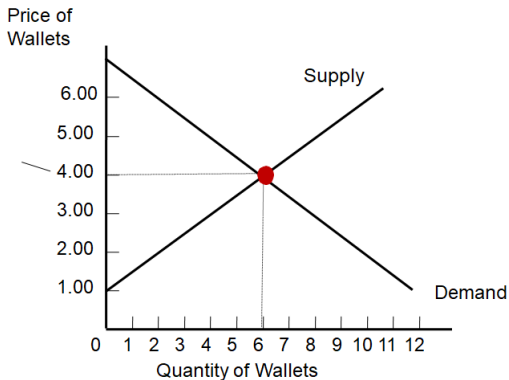
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- Market: Buyers and sellers of a good or service
- Buyers = Demand
- Sellers = Supply

- Demand and supply curves together = market
- Equilibrium = where demand and supply intersect
- Market clears, there is no surplus nor a shortage.
- Quantity demanded = Quantity supplied





What happens when there is excess supply (a surplus)?  
What happens when there is excess demand (a shortage)?

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- In the market for oranges, when Dr. Oz announces that eating two oranges a day could increase life expectancy by over two years.

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- A sudden increase in the number of book-sellers who open up small online stores on Amazon marketplace and Ebay.
- A hurricane that knocks out power, the rail network in Florida and damages the orange harvest.



