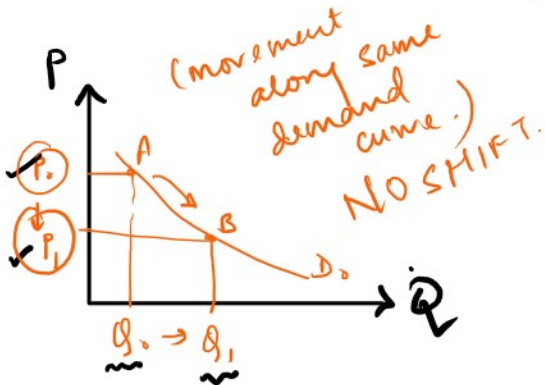


# DEMAND, SUPPLY and MARKET EQUILIBRIUM:

① Law of Demand: When all other factors remaining constant, (Ceteris Paribus),

when price of a commodity increases, the quantity demanded decreases and vice-versa. This inverse relation between price charged and quantity demanded is the Law of Demand.



The demand curve of a normal good is downward sloping.

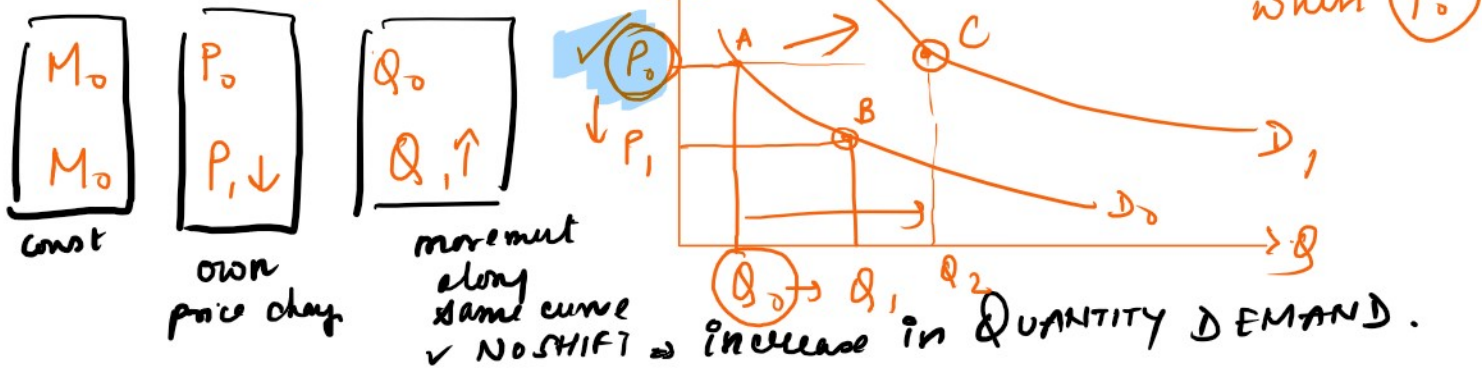
Demand curve is also known as maximum willingness to pay curve.

Factors that can affect the demand / quantity bought.

$$Q^x = f \left( P_x^{(-)}, P_s^{(+)}, P_c^{(-ve)}, M^{(+)}, T, E, S, A \dots \right)$$

- ①  $P_x \rightarrow$  Price of own commodity (-ve)  $\downarrow x \rightarrow \downarrow y \uparrow$
- ②  $P_s \rightarrow$  " " substitute good (+ve)  $\uparrow P_x \rightarrow \downarrow y$
- ③  $P_c \rightarrow$  " " complimentary good (-ve)  $\uparrow P_x \rightarrow \downarrow y$
- ④  $M \rightarrow$  income (-ve relation with inferior goods, +ve relation with normal goods).

Ex: Let income of the consumer increases. Then what will happen to the demand curve of a food item.



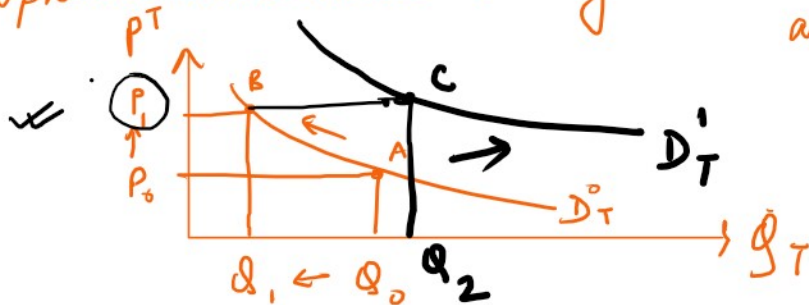
② Tea and coffee

① Draw a demand curve for tea when price of tea increases from  $P_0$  to  $P_1$ .

② What will happen to the demand curve for tea if price of coffee increases from  $P_A$  to  $P_B$ .

(i) ✓ No shift in demand curve

upward movement along the demand curve of tea and quantity demand decreases from  $Q_0$  to  $Q_1$  for tea.



(ii) There will increase in demand for tea and

(ii) There will increase in Demand for tea and demand curve will shift to the right side  $D_T$ .

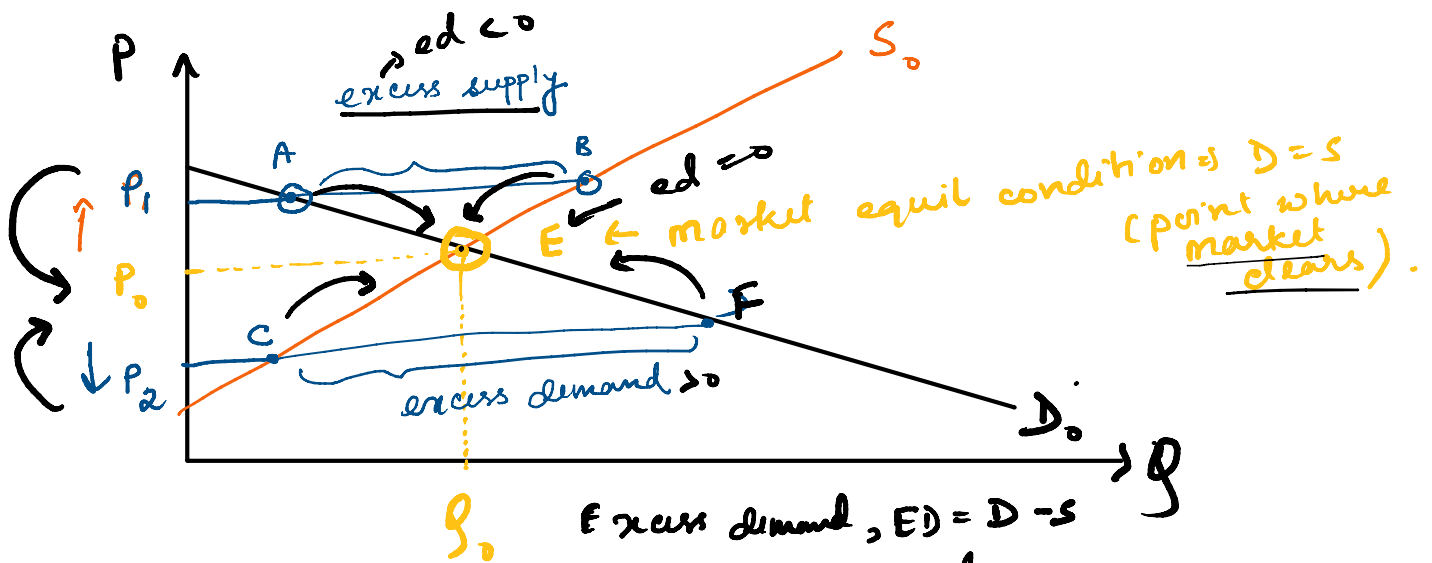
Concept of Supply Curve:

Factors affecting supply:

$$Q^s = f(P_a, A, I, P_i, M, SE)$$

(+)
(+)
(+)
(-)

## Market Equilibrium and Changes in Market Equilibrium



Condition for market stability is  $\frac{dED}{dP} < 0$

i.e. with increase in price level, excess demand should decrease.

$$\frac{d}{dP} (D - S) < 0$$

$$\frac{d(D)}{dP} - \frac{d(S)}{dP} < 0$$

$$\frac{d(D)}{dP} < \frac{d(S)}{dP}$$

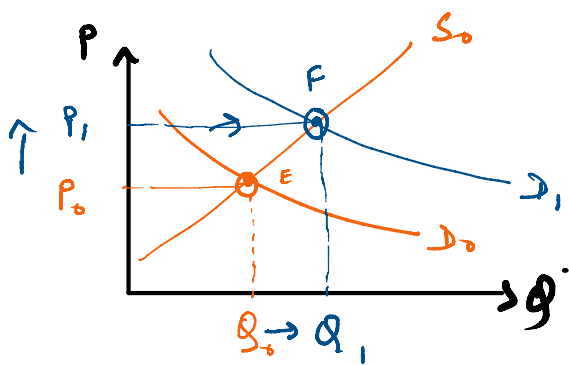
$$\frac{1}{\text{slope of } dd} < \frac{1}{\text{slope of } ss}$$

$$\text{or, } |\text{slope of } ss| < |\text{slope of } dd|$$

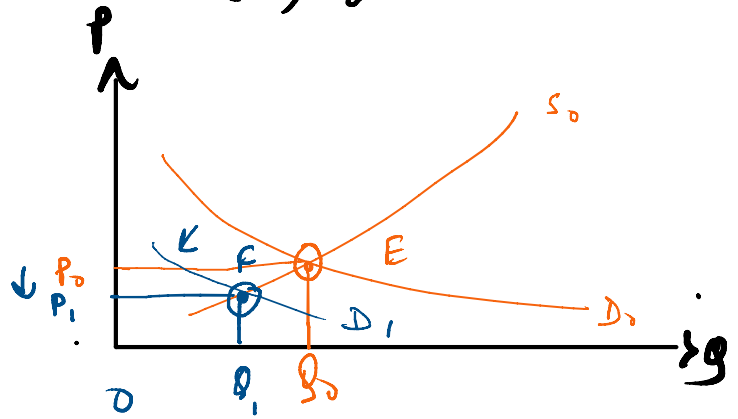
## # Changes in Market Equilibrium:

Case I: If demand changes but supply remains same.

(a) demand increases.



(b) demand decreases



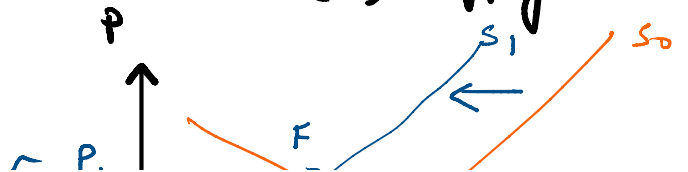
Result: Both equilibrium price and quantity will change in the same direction.

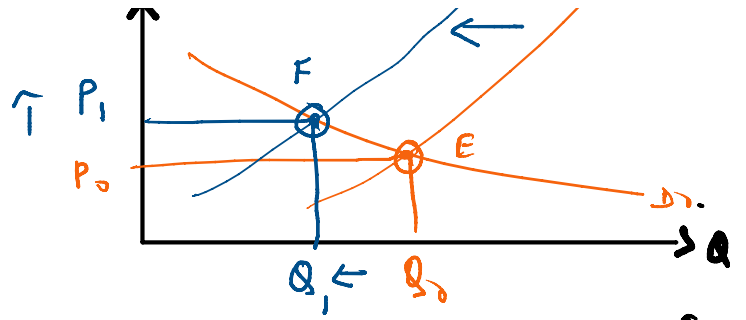
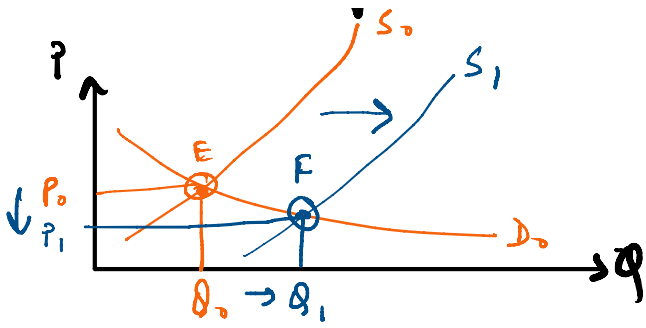
Case II: If supply changes keeping demand unchanged.

(a) supply increases



(b) supply decreases.





Result: equil price and equil quantity will change in opposite direction.

— + —