

Economics - Chapter 3 – Supply and Demand

1. **Demand** – the willingness and ability of buyers to purchase different quantities of a good at different prices during a specific time period
2. **Law of Demand** – as the price of a good rises, the quantity demanded of the good falls, and as the price of a good falls, the quantity demanded of the good rises, ceteris paribus
3. **Absolute Price** – the price of a good in money terms
4. **Relative Price** – the price of a good in terms of another good
5. **Law of Diminishing Marginal Utility** – For a given time period, the additional satisfaction gained by consuming equal successive units of a good will decline as the amount consumed increases. Example: You're hungry, you eat a hamburger, it tastes good. You're not so hungry anymore, and another hamburger doesn't look too appetizing. You eat it anyways. Now you're full. A third hamburger now really looks disgusting, and you can't eat it. The satisfaction from the hamburgers fell as you continued to eat.
6. **Demand Schedule** – the numerical tabulation of the quantity demanded of a good at different prices
7. **Downward Sloping Demand Curve** – the graphical representation of the law of demand
8. **Normal good** – a good that demand for which rises as income rises. Example – name brand clothing. The more money you have, the more you can afford, the more name brand clothing you will buy
9. **Inferior Good** – a good the demand for which falls as income rises, and vice versa. Example – cheap cars – the more money you make, the fewer cheap cars you will buy, because cheap cars aren't as good as luxury cars (duh).
10. **Substitutes** – two goods that satisfy similar needs or desires. If two goods are substitutes, the demand for one rises as the price of the other rises, and vice versa. Example: Pepsi and Coke. Drink more Pepsi, less Coke.
11. **Complements** – two goods that are used jointly in consumption. If two goods are complements, the demand for one rises as the price of the other falls. Example: racquets and balls. Buy more racquets, need more balls
12. **Own Price** – the price of a good. For example, if the price of oranges is \$1, then this is its own price
13. **Supply** – the willingness and ability of sellers to produce and offer to sell different quantities of a good at different prices during a specific time period
14. **Law of Supply** – as the price of a good rises, the supply of the good rises. As the price falls, the supply falls. If the price goes up, you have more incentive to make more of it, because it will bring in more profit
15. **Upward Sloping Supply Curve** – the graphical representation of the law of supply.
16. **Supply Schedule** – the numerical tabulation of the quantity supplied of a good at different prices
17. **Production subsidy** – a monetary payment by government to a producer of a good or service
18. **Surplus (Excess Supply)** – A condition in which quantity supplied is greater than quantity demanded. Surpluses occur only at prices above the equilibrium price. In other words, if the price is too high, and you can't sell everything, you get a surplus
19. **Shortage (Excess Demand)** – a condition in which quantity demanded is greater than quantity supplied. Shortages occur only at prices below the equilibrium price. In other words, if you sell too cheap, you don't have enough inventory.
20. **Equilibrium Price** – the price which quantity demanded equals quantity supplied
21. **Equilibrium Quantity** – the quantity that corresponds to the equilibrium price. It's the amount that all inventory is sold, with no shortages or surpluses
22. **Disequilibrium price** – any price other than the equilibrium price
23. **Disequilibrium** – the state of either surplus or shortage in a market
24. **Equilibrium** – The price quantity combination in a market from which there is no tendency for buyers or sellers to move away. Graphically, it's the intersection between the supply and demand curves.
25. **Price Ceiling** – a government mandated maximum above which legal trades cannot be made
26. **Price Floor** – a government mandated minimum price below which legal trades cannot be made
27. **Tie in Sale** – a sale whereby one good can be purchased only if another good is also purchased

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1. **Competitive market** – a market that has many buyers and sellers, no monopolies
2. **Relative price** – ratio of one price to another, also known as the opportunity cost
3. **Money price** – the price in dollars
4. **Demand** – something you want, can afford, and have made a definite plan to buy it
5. **Quantity demanded** – the amount that consumers plan to buy during a given time period at a particular price
6. Buying plans are influenced by the price, price of related goods, expected future prices, income, population, and preferences
7. **Demand** – relationship between quantity demanded and price
8. **Changes in demand** – prices of related goods, expected future prices, income, population, preferences change. These are all SHIFTS in the demand curve
9. **Change in quantity demanded** – moving along the demand curve, change only in current price
10. Demand curve is also a willingness and ability to pay curve

11. **Firms that supply have the resources and tech to produce it, can profit from it, and has made a definite plan to sell it**
12. **Quantity supplied** – amount that producers plan to sell
13. Supply determined by price of the good, prices of resources, prices of related goods produced, expected future prices, number of suppliers, and tech
14. Supply curve is a minimum supply price curve, also known as marginal costs
15. Prices of related goods produced – if the price of prerecorded CDs rise, supply of CDR falls since it's more profitable to produce CDs, which are substitutes for CDR. Beef and cowhide, for example, are complements. Producing more of one yields more of both
16. If the future price of a good is higher, then the supply today decreases and increases in the future
17. **Change in supply** – a change in any of the above factors except price
18. **Change in quantity supplied** – a change and only a change in price
19. If one curve shifts, it intersects the other curve at a new point. There was a change in quantity supplied/demanded, but NO CHANGE IN SUPPLY/DEMAND
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