PENANG SANGAM HIGH SCHOOL

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LESSON NOTES – WEEK 24

Subject: Commercial Studies **Year:** 10

Strand: 3 **Sub Strand:** 3.2 - Micro Economics

Content Learning Outcome: - Research the market equilibrium point and describe the factors affecting supply and demand in order to make rational decisions.

Lesson Notes:

Demand and Supply

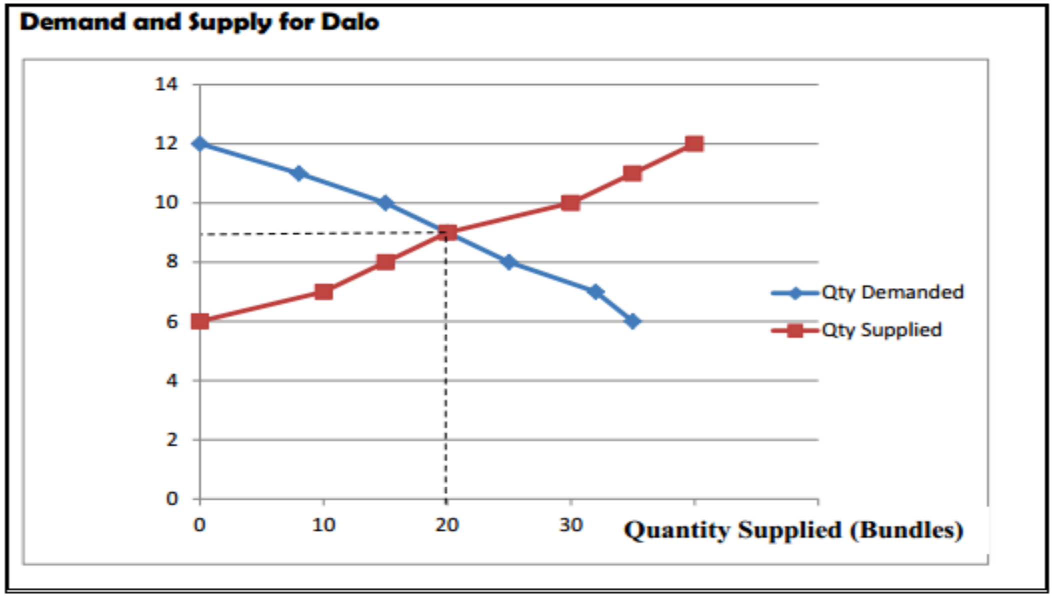
Equilibrium [Price and Quantity]: is the price at which the market quantity demanded equals the quantity supplied. Qs = Qd

Illustrative Example : Supply and Demand Curve

Demand and Supply Schedule of Dalo per week

Price per bundle $	Qty Demanded	Qty Supplied
12	0	40
11	8	35
10	15	30
9	20	20
8	25	15
7	32	10
6	35	0

Market Equilibrium



The graph and the table show that:

- At the price of $9 the quantity demanded and quantity supplied are equal thus in equilibrium where there is no surplus or shortage
- At any price above $9 there will be an excess supply resulting in surplus
- At any price below $8 there will be an excess demand resulting in shortage.

<u>Shortage [Excess Demand] [D > S]</u>

- A shortage is when quantity demanded is greater than quantity supplied at a given price.

<u>Surplus [Excess Supply] [S > D]</u>

- A surplus occurs when quantity supplied is greater than quantity demanded at a given price.

Market Demand

Market Demand Schedule: is a sum of all consumers demand for a particular good or service at various price levels. Using the market demand schedule a market demand curve could be drawn.

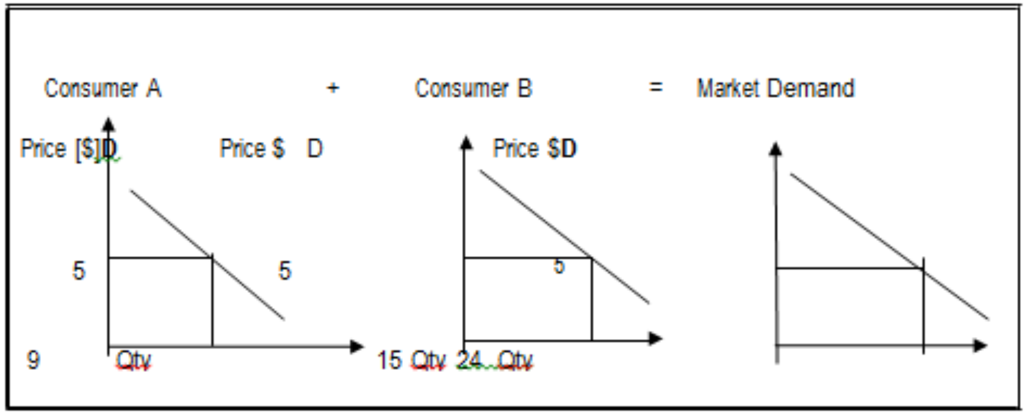
Market Demand Curve: is the graphical presentation of the market demand schedule or the horizontal summation of each individual demand curve.

Illustrative Example 1: Figure below shows quantity demanded for jeans by different consumers at different price levels

Price [$]	Consumer A Quantity Demanded	Consumer B Quantity Demanded	Consumer C Quantity Demanded	Consumer D Quantity Demanded	Market Demand
30	0	0	0	0	0
25	2	4	8	5	19
20	8	6	10	7	31
15	15	19	20	17	71
10	20	24	27	22	93
5	29	34	30	35	128

Market Demand

Example 2: The Market Demand can be also be arrived at by horizontal summation of each individual demand curve as shown in Figure 8.6



Market Demand

Factors Affecting Market Demand

1. Changes in income
2. Changes in taste and fashion
3. Changes in price of related goods
    - Substitute goods – goods that can be used in place of other goods eg butter, margarine
    - Complementary goods (joint goods) – goods that are jointly demanded and used together eg bread and butter, rice and curry etc.
4. Expectation – prices are expected to rise in future
5. Changes in weather
6. Change in population

Market Supply Schedule: is a sum of all producers supply for a particular good or service at various price levels. Using the market supply schedule a market supply curve could be drawn.

Market Supply Curve: The market supply curve is obtained by summing the quantities supplied by all suppliers at each potential price. Thus, in the graph of the supply curve, individual firms' supply curves are added horizontally to obtain the market supply curve.

Factors Affecting Market Supply

1. Cost of production – a rise in the cost of production (inputs) including wages, rent payment, and materi al prices will lead to decrease in supply
2. Changes in price of unrelated goods – producers will produce goods that will make much profit for example if farmers' belief copra is not profitable, they might switch from copra to dalo.
3. Changes in technology- things like computer, communication technologies have reviewed the overhead cost.

Class Activity

1. The demand and Supply schedule for Dalo is given in the table below. Use the information provided below and your own knowledge to answer the questions that follow:

Price ($)	Quantity Supplied (bundle)	Quantity Demanded (bundle)
10	3	30
30	9	21
40	15	15
50	27	9
60	30	3

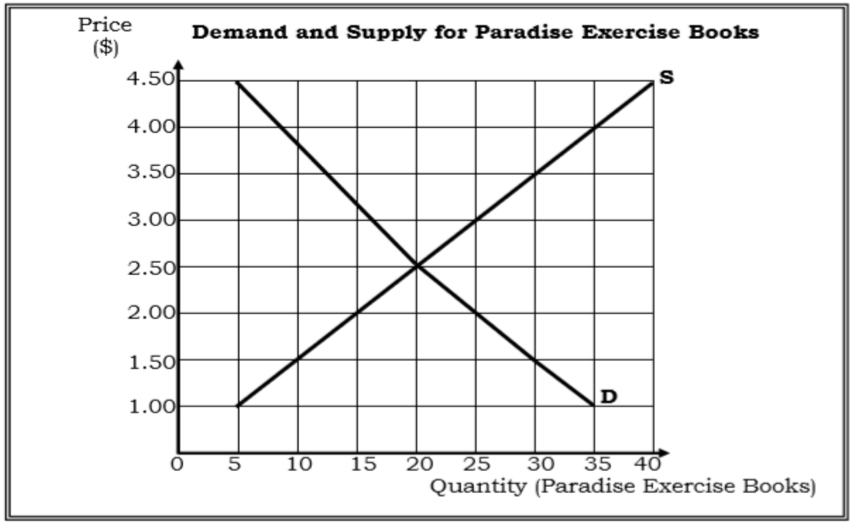
i. Draw and label the demand and supply curve.

ii. From the graph, identify the market equilibrium

(a) Price

(b) Quantity

2. Use the graph given below and your knowledge to answer the questions that follow.



i. From the graph, identify the market equilibrium

a) Price

b) Quantity

3. At $1.50, will there be a surplus or shortage of Paradise exercise books?
4. State one factor affecting change in demand.