Getting ready for the AP Macroeconomics Exam

Lesson 2

Quantity S / D vs. Supply and Demand, Law of Supply and Demand, Reasons for Change of Supply and Demand

How does a demand schedule differ from a market demand schedule?

- A demand schedule (individual demand schedule) illustrates how many quantities one consumer would be willing and able to purchase at various prices

Quantity of cookies demanded	Price
25	$ 0.25
20	$ 0.50
15	$ 0.75
10	$ 1.00
5	$ 1.25

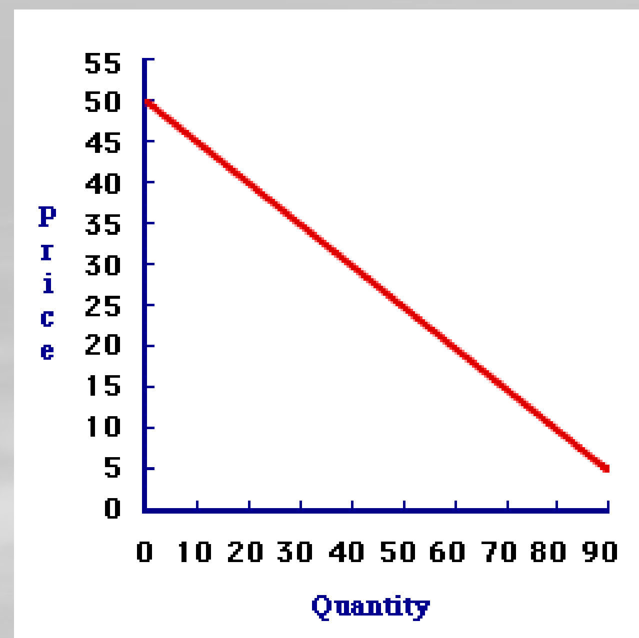
- A market demand schedule is the sum of all individual demand schedules for the same product – thus illustrating how many quantities several consumers demand at various prices

How does a demand schedule differ from a demand curve?

- Set of data

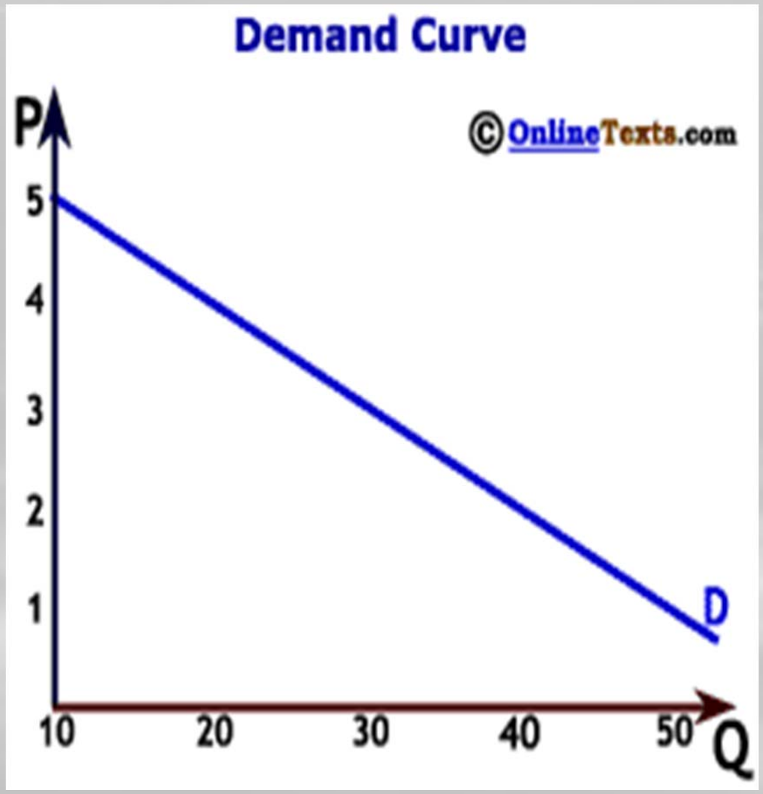
Quantity of cookies demanded	Price
25	$ 0.25
20	$ 0.50
15	$ 0.75
10	$ 1.00
5	$ 1.25

- Graphic illustration of data



What does the demand curve depict?

- Desire, willingness & ability to buy a product
- Different quantities will be bought at various prices
- Greater quantities will be demanded at lower prices and v.v. due to change in marginal utility
- Inverse correlation between quantity demanded and price



Must Knows about Quantity Demanded and Demand Curve

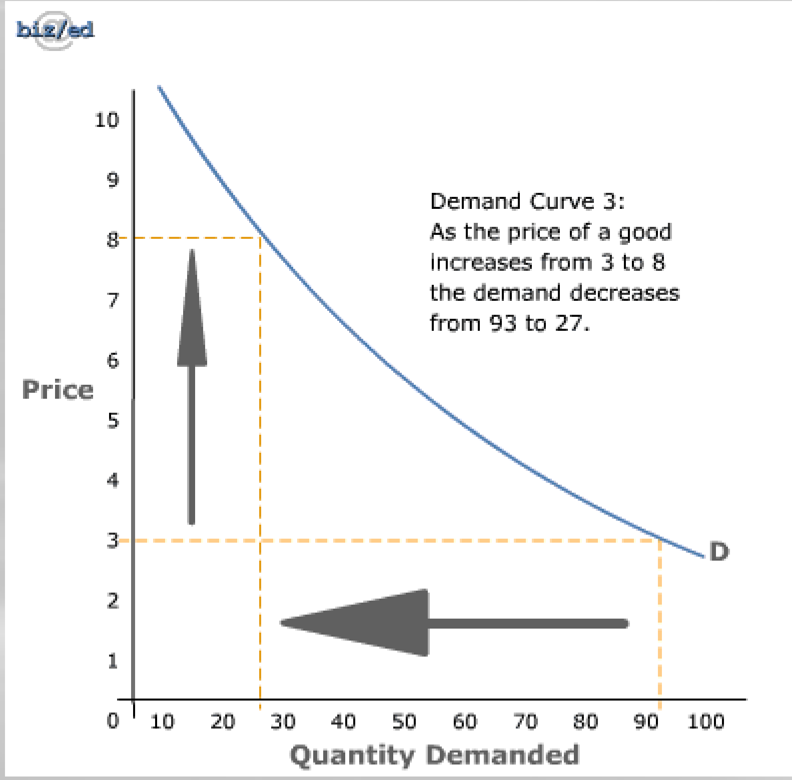
- @ a particular price a certain quantity of goods/services will be demanded
- People buy different quantities at different prices
- This is a point representing a correlation of price and quantity demanded
- This are various points representing the correlation of price and quantity demanded
- Connect all these points and you create a demand curve

Graph

- Single Consumer vs. Multiple Consumers
- Multiple Consumers vs. Demand Curve

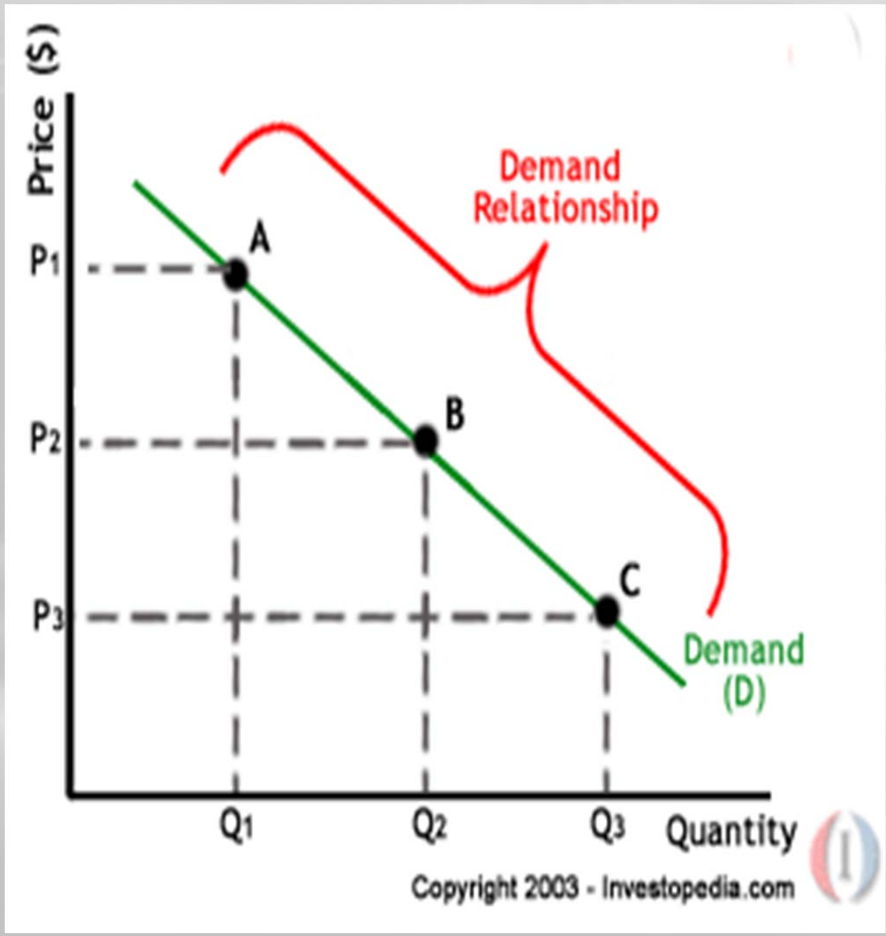
What will happen to quantities demanded when the price changes?

- When the price of a good / service increases, the quantity demanded decreases
- When the price of a good / service decreases, the quantity demanded increases



Law of Demand

- A microeconomic law that states that, all other factors being equal, as the price of a good or service increases, the quantity consumers demand of the good or service will decrease and vice versa.
- Indirect correlation between price and quantity demanded



Reasons for Change in Demand

- Change in the Price of Substitute Goods
- Change in the Price of Complementary Goods
- Change in Consumer Income
- Change in Consumer Preference / Taste / Expectation
- Change in Number of Consumers

How does a supply schedule differ from a market supply schedule?

- A supply schedule illustrates how many quantities one producer would be willing and able to provide at various prices

Supply Schedule

P	Q_s
\$1.00	0
\$1.50	5
\$2.00	10
\$2.50	15
\$3.00	20
\$3.50	25
\$4.00	30

- A market supply schedule is the sum of all individual supply schedules for the same product – thus illustrating how many quantities several producers provide to the market at various prices

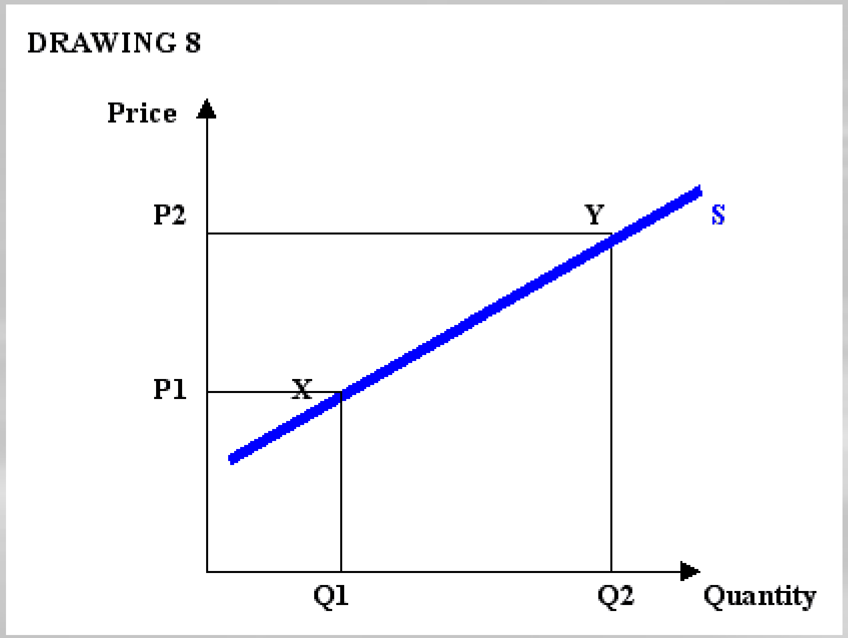
How does a supply schedule differ from a supply curve?

- Set of data

Supply Schedule

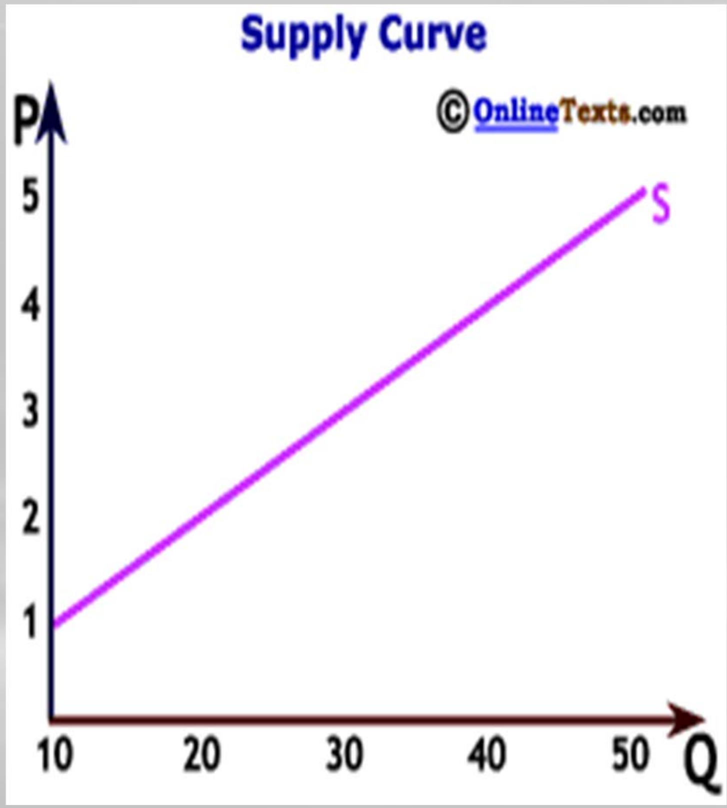
P	Q_s
\$1.00	0
\$1.50	5
\$2.00	10
\$2.50	15
\$3.00	20
\$3.50	25
\$4.00	30

- Graphic illustration of data



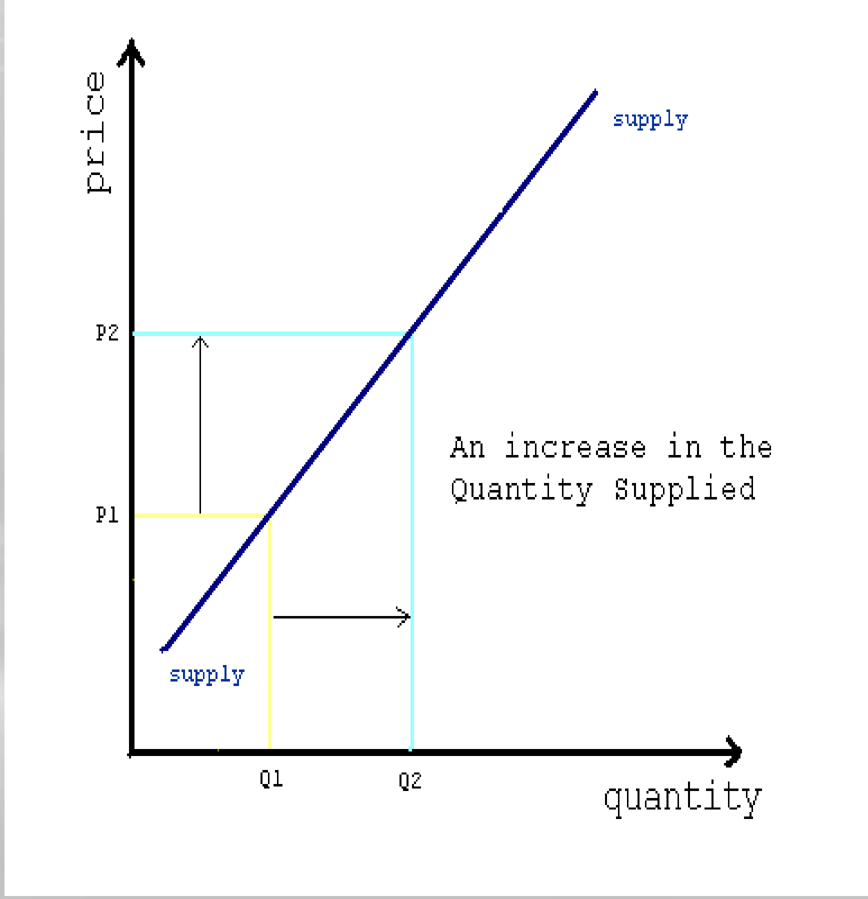
What does the Supply curve depict?

- Amount of products that would be offered for sale at various prices that could prevail in the market
- Some producers have lower production costs and higher / lower productivity than other, which enables them to offer a product for a lower prices



What will happen to quantities supplied when the price changes?

- When the price of a good / service increases, the quantity supplied increase
- When the price of a good / service decreases, the quantity supplied decreases
- Direct correlation between quantities supplied and price



Must Knows about Quantity Supplied and Supply Curve

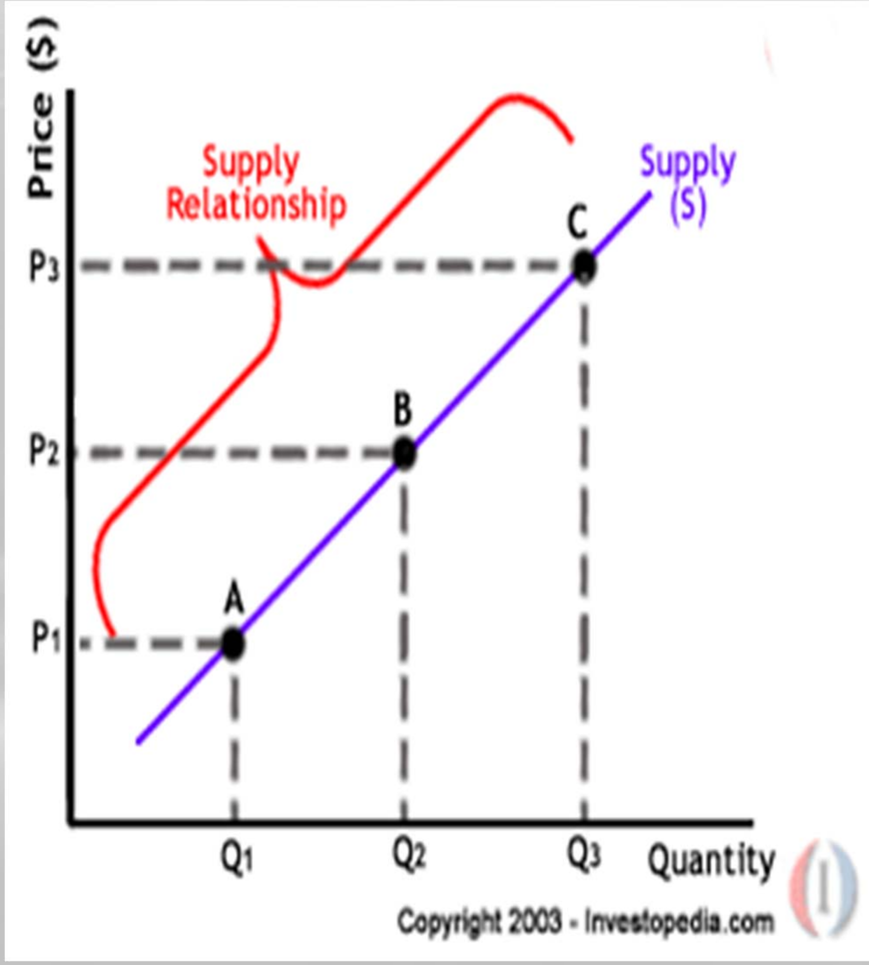
- A producer is willing and able to produce a specific quantity at a specific price
- Several producers are willing and able to produce their products at various prices due to varying productivity
- This is a point representing a correlation of price and quantity supplied
- This are various points representing the correlation of price and quantity supplied
- Connect all these points and you create a supply curve

Graph

- Single Producer vs. Multiple Producers
- Multiple Producers and Supply Curve

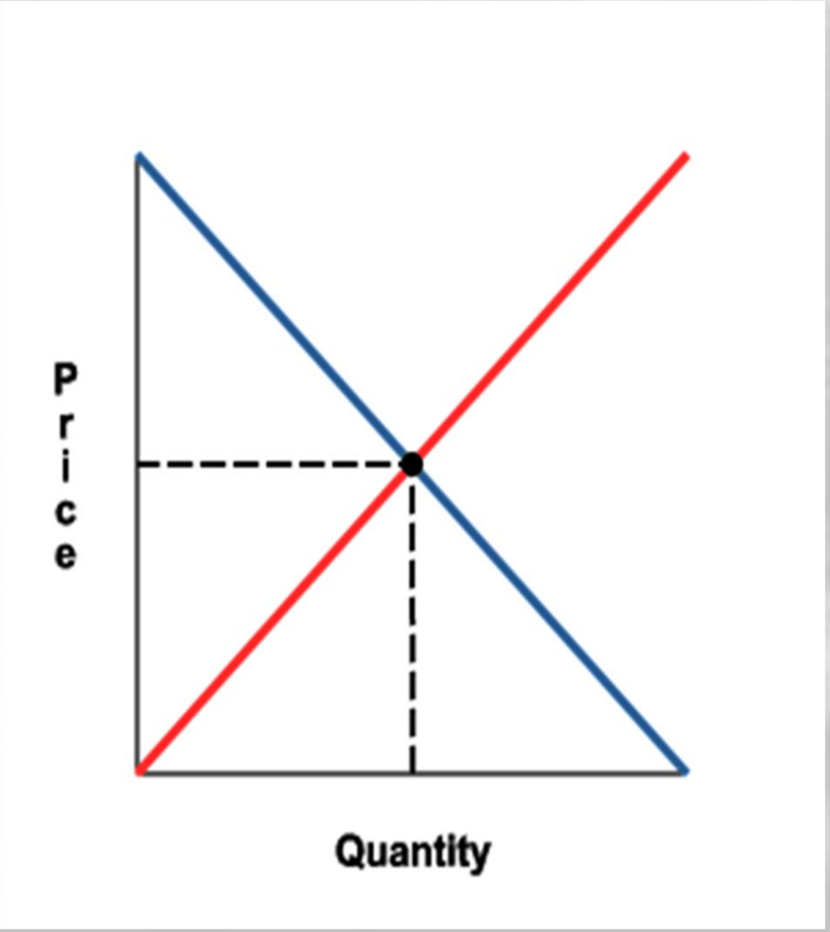
Law of Supply

- A microeconomic law stating that, all other factors being equal, as the price of a good or service increases, the quantity of goods or services offered by suppliers increases and vice versa.
- Direct correlation between price and quantity supplied



How can the market price for a product be determined?

- The market price for a product is determined by supply and demand. When the quantity demanded equals the quantity supplied, the market clears, thus the market price is determined. This point is also called market equilibrium or market clearing price and quantity.



Reasons for Change in Supply

- Change in Number of Sellers
- Change in Cost of Production
- Change in Technology and Productivity
- Change in Government Regulations (Taxes, Subsidies, Laws)
- Producer Expectations