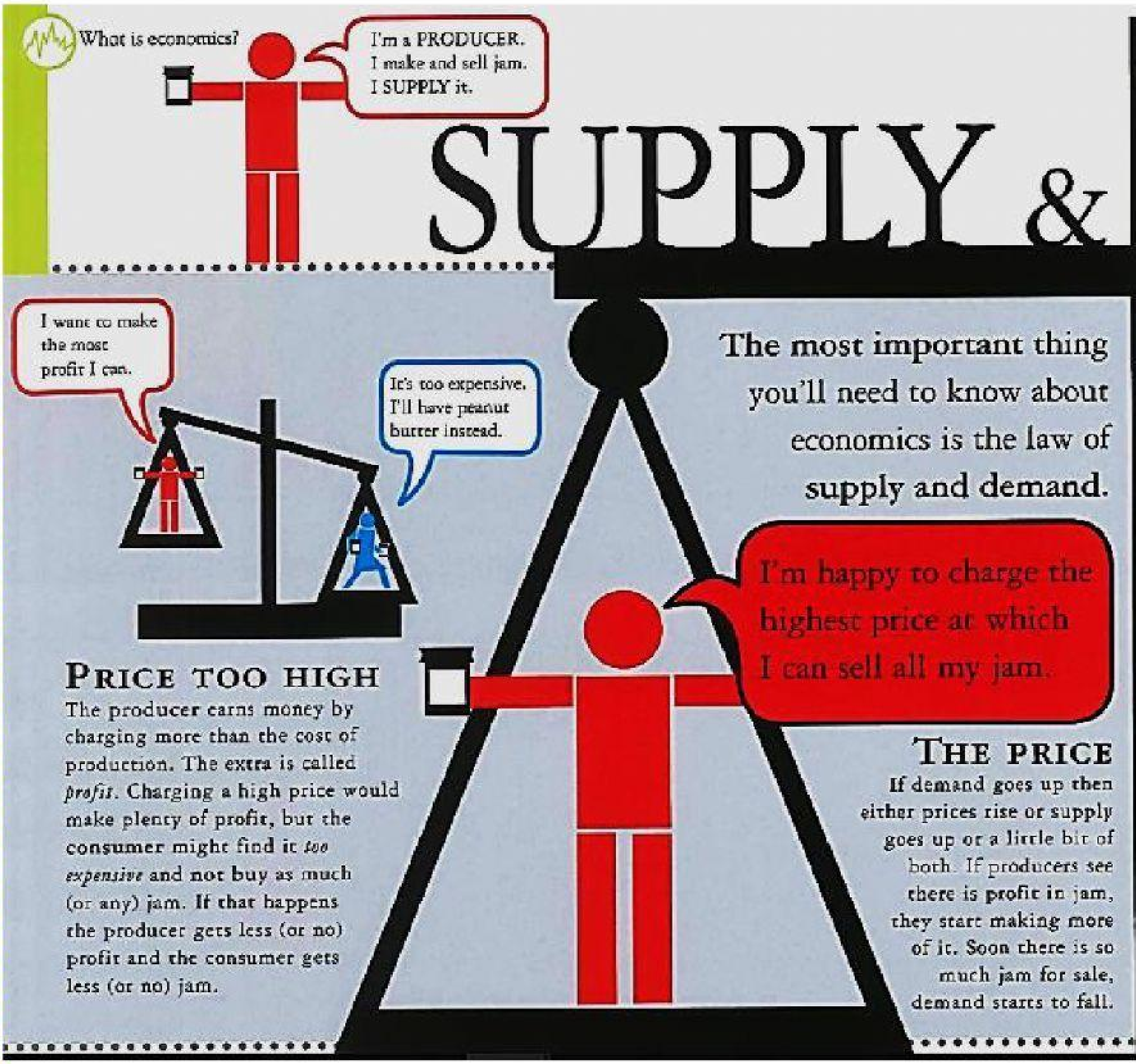
This mark will be given to you later by your teacher!!

Business

Supply & Demand


What is economics?

I'm a PRODUCER. I make and sell jam. I SUPPLY it.

SUPPLY &

I want to make the most profit I can.

It's too expensive. I'll have peanut butter instead.

The most important thing you'll need to know about economics is the law of supply and demand.

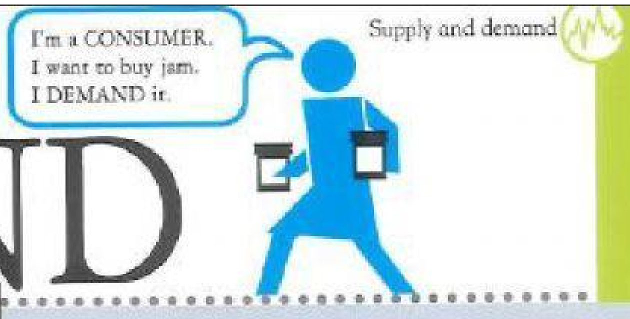
I'm happy to charge the highest price at which I can sell all my jam.

PRICE TOO HIGH

The producer earns money by charging more than the cost of production. The extra is called *profit*. Charging a high price would make plenty of profit, but the consumer might find it *too expensive* and not buy as much (or any) jam. If that happens the producer gets less (or no) profit and the consumer gets less (or no) jam.

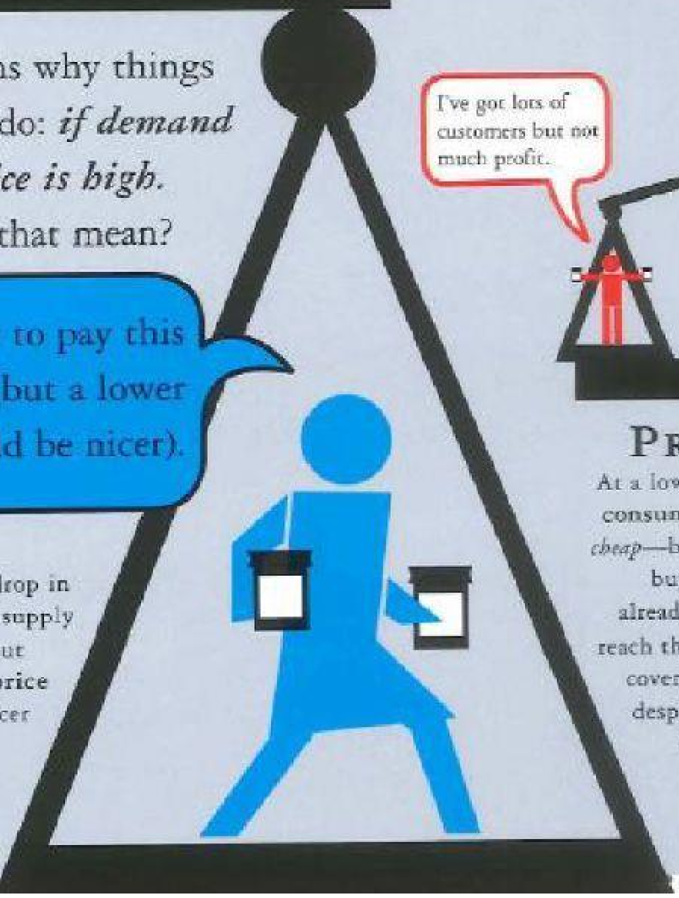
THE PRICE

If demand goes up then either prices rise or supply goes up or a little bit of both. If producers see there is profit in jam, they start making more of it. Soon there is so much jam for sale, demand starts to fall.



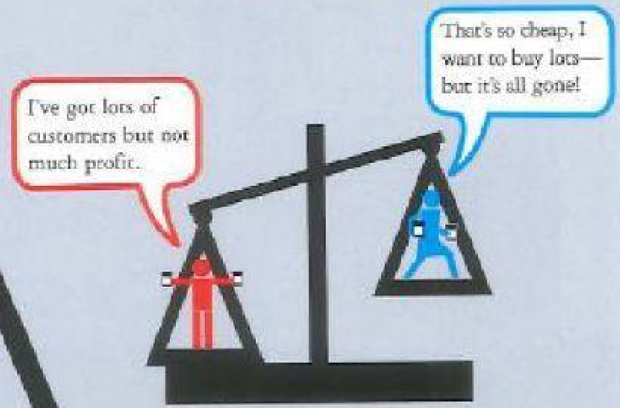
DEMAND

The law explains why things cost what they do: ***if demand is high, the price is high.*** But what does that mean?



IS RIGHT

This fall results in a drop in price. Eventually, the supply and demand balance out and an **equilibrium price** is reached. The producer makes a profit, the consumer can afford the jam, and everybody's happy.



PRICE TOO LOW

At a low price, jam sells well. Some consumers benefit from jam being *cheap*—but others who would like to buy find they can't because it's already sold out by the time they reach the stores. The producer may cover costs, but makes *little profit* despite all the jam being sold. If he raised the price, he could have made more money.

Adam Smith's invisible hand

The interaction between producers and consumers—even if they don't meet—results in goods reaching their equilibrium price. This is part of what Adam Smith called the "invisible hand of the market."

Balanced ***supply*** *and* ***demand***

HOW DOES DEMAND AFFECT PRICE?

Let's imagine that there are only three melons left in the market, but 12 people want to buy one. Demand for melons is high, so the trader, or PRODUCER, *can charge more money* for them (as long as there are buyers). In other words, demand is high, so the price goes up. Other

High demand raises prices.

results in the ***equilibrium price.***

traders see that people want melons, and the next day 10 traders stock them. Now there are lots of melons in the market, many aren't being sold because there aren't enough **CONSUMERS** to buy them all—in other words, **demand** is low. In order to sell a melon, the trader has to *reduce the price* so people buy from him and not someone else. Demand has gone down, so the price has gone down.

Price changes like the weather

Prices are not fixed, they move constantly in order to reach the equilibrium price. Many factors affect price. For example, demand on umbrellas will be higher when it is raining. Suppliers could charge higher prices on rainy days.

Low demand lowers prices.

In your own words - what do you remember?

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