Economics in Action

POWERPOINT PRESENTATION

Using the information in the attached handout (as well as what you already know about supply and demand), prepare a 6 slide PowerPoint presentation that follows these guidelines:

- First slide is a title slide, including the title, your name and the date
- Slides 2 - 5 are informational slides based on the packet
- The last slide is a personal story from your own life that illustrates one or more of the supply & demand concepts in this packet.

Your PowerPoint MUST include at least TWO of the following elements per slide:

- Backgrounds for the slides, either using themes, colors, or pictures. Just make sure your text is readable.
- Clipart, Photos, SmartArt.
- Animations of the text or other elements on the slides.
- Transitions between slides.
- Interesting arrangement on the slide, using fonts, colors, WordArt, etc.

DO NOT PRINT THESE OUT!!!!
EMAIL or SHARE YOUR FINISHED POWERPOINT TO:
pclark@nwlsd.org

I realize that everyone has different abilities and experiences with using PowerPoint.
Do the best you can given your knowledge of the software product.
Show me what you've got!

DUE BY THE END OF CLASS TODAY

Economics in Action

Demand

Demand refers to the quantity of goods or services that is desired by buyers at a given price.

A **competitive market** is an environment in which people attempt to improve their well-being by responding to incentives to trade with others. The concepts of choice and incentives underlie the supply and demand analysis of a market. In a competitive market, prices are discovered, not set by authorities. The price in a competitive market depends on the behavior of buyers and sellers. Buyers try to buy at the lowest possible prices. Sellers try to sell at the highest possible prices.

Demand refers to how much (the quantity) of a product or service that is desired by buyers. The quantity demanded is the amount of a certain product people are willing to buy at a certain price, and the relationship between price and quantity demanded is known as the demand relationship. The demand relationship may be represented graphically by a demand curve. There is an inverse relationship between the price of a good and the quantity demanded.

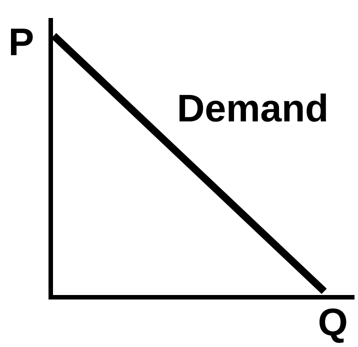
The choices that consumers make form a pattern and establish the basis for the law of demand. The **law of demand** states that consumers will tend to buy less of a good or service at higher prices and more at lower prices. As the price increases, the quantity demanded for that item falls. As the price decreases, the quantity demanded increases. These relationships demonstrate economizing behavior. When prices increase, the anticipated benefit does not change, but the value of the next-best alternative (the opportunity cost) increases; consumers respond to the changed incentives and purchase less of the product. When prices decline, the anticipated benefit remains the same, but the value of the next-best alternative declines; therefore, consumers are rewarded if they purchase more.

The concept of demand is based on three key assumptions: that people economize, that people respond to incentives in predictable ways, and that all choices involve costs. Students can use the concept of demand and the related assumptions to explain why consumers purchase more at lower prices. Lower prices reduce costs relative to benefits for a particular purchase, while higher prices raise costs relative to benefits. Buyers seek the best deal among the alternatives available to them. Also, the concept of demand can be used to forecast what consumers will do when prices change or when variables that affect the actual demand for a product change and create a new price-quantity relationship.

A **change in the quantity demanded** is caused when prices change, and may be represented graphically by a movement along the demand curve. A **change in demand** is a shift of the demand curve, and is caused when consumer behavior changes. Consumer behavior may change for a number of reasons, including changes in prices of related goods (substitutes and complements), changes in incomes, changes in preferences or tastes, or changes in expectations. These reasons for changes in consumer behavior are considered the **determinants of demand**.

<u>Key terms</u>

- **Competitive Market**
- **Demand**
- **Law of Demand**
- **Change in Quantity Demanded**
- **Change in Demand**
- **Determinants of Demand**



Economics in Action

Supply

Supply refers to how much of a good or service producers are willing to offer at a given price.

Supply represents how much of a product or service the market can offer. The quantity supplied refers to the amount of a certain good producers are willing to supply at a certain price. The correlation between price and how much of a good or service is supplied into the market is known as the supply relationship. The supply relationship can be illustrated by a supply curve.

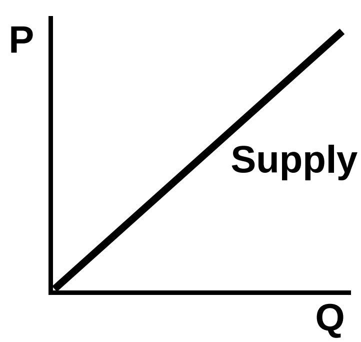
The choices that producers make form a pattern and establish the basis for the law of supply. The **law of supply** states that producers will tend to supply more of a good or service as prices for the good or service increase. As prices decrease, the quantity supplied also decreases. Why? As prices increase, the anticipated benefit to producers rises; the higher price acts as an incentive, encouraging producers to move more resources into production of the higher-value good or service. When prices go down, the anticipated revenue will fall short of the opportunity cost the producers had previously considered; consequently, producers will produce less.

The concept of supply also relates to the three key assumptions we considered in studying demand: that people economize, that people respond to incentives in predictable ways, and that all choices involve costs. Students can use the concept of supply together with the related assumptions to explain why firms produce more goods and services at higher prices. Higher prices generate greater business revenue. Suppliers seek the best use of their expertise and other resources because, given a choice, they would rather earn more than less when they produce and sell goods and services. Also, students can use the concept of supply to forecast what producers will do in the market when prices change or when variables that affect supply for a given product change and create a new price--quantity relationship.

A **change in the quantity supplied** is caused when prices change, and may be represented graphically by a movement along the supply curve. A **change in supply** is a shift of the supply curve, and is caused when producer behavior changes. Producer behavior may change due to many reasons, including changes in input prices (raw materials, wages, etc.), changes in technology, changes in expectations, or changes in the number of sellers. These reasons for changes in producer behavior are considered the **determinants of supply**.

Key terms

- **Supply**
- **Law of Supply**
- **Change in Quantity Supplied**
- **Change in Supply**
- **Determinants of Supply**



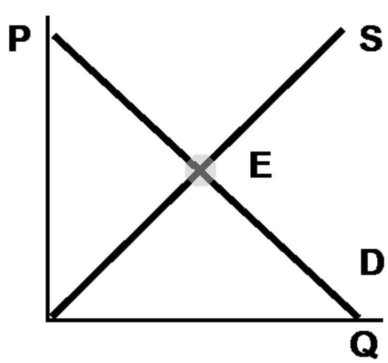
Economics in Action

Equilibrium

Equilibrium occurs when supply and demand are equal and the supply curve and demand curve intersect.

<u>Key terms</u>

- **Equilibrium**
- **Equilibrium Price & Quantity**
- **Disequilibrium**
- **Surplus and Shortage**



The forces of supply and demand work to establish a price at which the quantity of goods and services consumers will buy is equal to the quantity of goods and services businesses will sell. This price is called the **equilibrium price** (or market-clearing price). It is the point where supply and demand are equal (where the supply curve and demand curve intersect) and the economy is said to be in equilibrium. At this point, the allocation of goods is at its most efficient because the amount of goods being supplied is exactly the same as the amount of goods being demanded. Thus, everyone (individuals, firms, or countries) is satisfied with the economic condition at equilibrium. At the given price, suppliers are selling all the goods that they have produced and consumers are getting all the goods that they are demanding.

However, we should not think of equilibrium price as a rigid point where two lines on a graph cross. Instead, we should think of it as the result of a process of mutual accommodation among buyers and sellers. Economists may seem to be obsessed about prices; if they are, it is because they know that prices provide the indispensable information and incentives that make the invisible hand of the marketplace such a powerful mechanism for coordinating economic behavior.

In the real marketplace, equilibrium can only ever be reached in theory, so the prices of goods and services are constantly changing in relation to fluctuations in demand and supply.

Disequilibrium occurs when supply and demand for a good or service are not equal. This situation results in either a surplus or shortage of the good or service. In the situation of a **surplus** (quantity supplied exceeds quantity demanded, at a given price) the price is set too high, resulting in too much supply given the level of demand. In the situation of a **shortage** (quantity demanded exceeds quantity supplied, at a given price) the price is set below the equilibrium price, and because the price is so low, too many consumers want the good while producers are not making enough of it.

Economics in Action

Changes in Supply and Demand

Price changes cause movements <u>along</u> the curves; other changes (external factors) cause <u>shifts</u> in the curves.

Key terms

- **Movements**
- **Shifts**

In economics, the “movements” and “shifts” in relation to the supply and demand curves represent very different things in the market.

Movements. A movement refers to a change along a curve.

Demand. On the demand curve, a movement denotes a change in both price and quantity demanded from one point on the demand curve to another point on the curve. The movement implies that the demand relationship remains consistent. Therefore, a movement along the demand curve will occur when the price of the good changes and the quantity demanded changes in accordance to the original demand relationship. In other words, a movement occurs when a change in quantity demanded is caused only by a change in price, and vice versa.

Supply**.** Like a movement along the demand curve, a movement along the supply curve means that the supply relationship remains consistent. Therefore, a movement along the supply curve will occur when the price of the good changes and the quantity supplied changes in accordance to the original supply relationship. In other words, a movement occurs when a change in quantity supply is caused only by a change in price, and vice versa.

Shifts. A shift in a demand or supply curve occurs when a good's quantity demanded or supplied changes even though price remains the same.

Demand. Shifts in the demand curve imply that the original demand relationship has changed, meaning that quantity demanded is affected by a factor other than price. The shift of the demand curve is caused when there is a change in consumer behavior. As mentioned previously, these are called the determinants of demand, and include:

- changes in prices of related goods (substitutes and complements)
- changes in incomes
- changes in preferences or tastes
- changes in expectations

Supply**.** Like a shift in the demand curve, a shift in the supply curve implies that the original supply relationship has changed, meaning that quantity supplied is affected by a factor other than price. The shift of the supply curve is caused when there is a change in producer behavior. As mentioned previously, these are called the determinants of supply, and include:

- changes in input prices (raw materials, wages, etc.),
- changes in technology
- changes in expectations
- changes in the number of sellers