**Supply and Demand
Production and Costs
Price**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

* Desire to want something and the ability to pay for it

**Law of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

* When the price of goods goes down, then demand goes up and if the price goes up, then demand goes down
* Graphing Demand
	+ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – data table of demand and price
	+ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_– graph representation of demand schedule

**Demand Curve Shifts**

* If all things are constant in the market, it is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (Latin for all constant)
* What causes shift in demand?
	+ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
	+ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
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	+ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Demand Elasticity**

* Measurement of consumer reaction to price changes
	+ If continue to buy if price increases = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ demand
	+ If limited or stopped buying if price increases = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ demand
* Factors of Elasticity
	+ Available of Substitute goods
	+ Importance of goods
	+ Necessities v. Luxuries
	+ Change over Time

**Elasticity and Revenue**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – firms total $$ made from selling goods and services
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – as price decreases, revenue increases and as price increases, then revenue decreases
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – as price decreases, revenue decreases and as price increases, then revenue increases

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* Amount of goods available

**Law of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

* When price is high, quantity supplies is high, and when price is low, quantity is low
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – the amount a supplier is willing and able to supply at a certain price

**Graphing Supply**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – a chart that lists how much of a good a supplier will offer at different prices
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – a graph of the quantity supplied of a good at different prices

**Supply Curve Shifts**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – any change in the cost of an input used to produce a good; such as raw materials, machinery, or labor will affect supply
* How does input cost affect supply?
	+ A rise in the cost of an input will cause a fall in supply at all price levels because the good has become more expensive to produce

**Government Influence**

* How does each of the following affect supply?
	+ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_– a government payment that supports a business or market can either protect or harm supply
	+ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_– \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ tax – a tax on the production or sale of a good or service – “sin” tax – taxes that inhibit suppliers and make it more difficult to afford – Alcohol, Tobacco, Gas
	+ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_– Government intervention in a market that affects the production of a good; hurts supply typically because it costs more to supply, because the government is trying to protect the public

**Supply Elasticity**

* Measurement of the way suppliers respond to change in price
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – the price is determined by the amount of supply
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – increase or decrease in price has NO effect on supply

**Supply and Demand**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – the point at which Supply and Demand (quantity supplied and quantity demanded) are equal, a point of balance is reached
* Point of balance = Equilibrium Price
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – when there is no point at which the amount supplied = the amount demanded; can have either a excess demand or excess supply

**Supply Production**

* Labor and their Output
	+ How many workers needed to produce?
		- Basic question business owners must answer everywhere
	+ Marginal Product of Labor
		- The change in output from hiring one additional unit of labor
* Law of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Marginal Returns
	+ A level of production in which the marginal product of labor increases as the number of workers increases
* Law of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Marginal Returns
	+ A level of production in which the marginal product of labor decreases as the number of workers increases

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Costs**

* The factors that contribute to the total cost of creating a good or providing a service
	+ Two major costs
		- \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Costs – a cost that does not change, no matter how much of a good is produced
			* Ex. Rent, Machinery repairs, Property taxes, salaries
		- \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Costs – a cost that rises or falls depending on how much is produced
			* Ex. Cost of raw materials, heating, electricity
		- \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – Fixed Costs + Variable Costs
			* The product will cost more or they will restrict supply because of cost
		- \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – the cost of producing one more unit of a good suppliers will produce
		- \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – the cost of operating a facility, such as a store or factory
			* Suppliers will produce the most they can and still be profitable

**Setting Output**

* Firms determine output to maximize profit
* Marginal revenue is additional income from selling one more unit of a good
* Output is determined by finding a level where marginal revenue = marginal costs
* Firms reconsider marginal cost if prices change

**Shifts in Equilibrium**

* Government Intervention
	+ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – highest price allowed by law
	+ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – lowest price allowed by law
* Shifts in supply (either too much of an item or not enough)
* Shifts in demand (either too many consumers or not enough)

**Role of Price**

* Tool for distribution of resources
* Move factors of production into suppliers’ hands and goods and services in to demanding hands

**Types of Goods**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – Goods in demand more when income increases
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – Goods in demand less when income increases
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – Goods that replace other goods
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – Goods that are used together with other goods

**Advantages of Prices**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – to make a profit and grow markets
* Signals – communication for buyers and sellers
	+ Low Price
		- Red light to producers that a good is being overproduced
		- Green light to consumers to buy more of a good because of a low opportunity cost
	+ High Price
		- Green light to producers that a good is in demand and resources should be used to produce more
		- Red light to consumers to stop and think very carefully before buying

**Disadvantages of Price**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – a system of allocating scarce goods and services using criteria other than price
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – a situation in which a good or service is unavailable, or a situation in which the quantity demanded is greater than the quantity supplied
* Both result in the formation of a Black Market
	+ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – a market in which goods are sold illegally