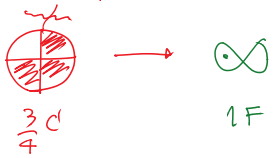
FACT #3 : BOTH FEASIBLE AND EFFICIENT.

WHEN MR. TOM MAKES CHOICE, HE FACE WITH "TRADE-OFFS": TO GET MORE OF FISHES, SOME COCONUTS MUST BE RELEASED. VICE VERSA.

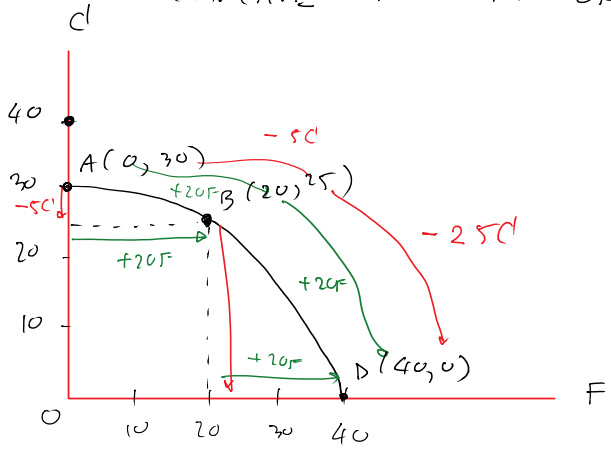
FACT #4 : OPPORTUNITY COST OF HAVING A FISH = $\frac{3}{4}$ UNIT OF COCONUT FORGONE.

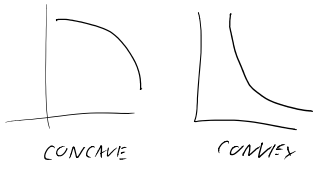


23.08.16

NOTICE THAT, FOR A STRAIGHT LINE PPC, OPPORTUNITY COST OF FISH IS CONSTANT, i.e., WHEN TOM WANTS TO EAT AN ADDITIONAL FISH, HE MUST GIVE UP $\frac{3}{4}$ UNIT OF , ALWAYS.

FACT # 5 : IN REALITY, PPC IS NOT A STRAIGHT LINE, BUT CONCAVE FROM THE ORIGIN.

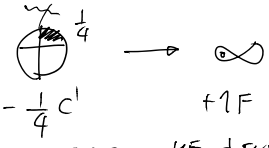




MOVING FROM A TO B : TO OBTAIN 20F, HE GIVES UP 5C

" " 1F " "

$\frac{5}{20} = \frac{1}{4}$ C

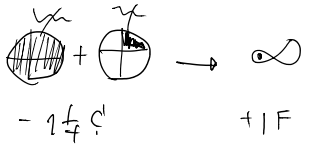


5 TIMES INCREASE

MOVING FROM B TO D : TO OBTAIN 20F, HE GIVES UP 25C

" " 1F " "

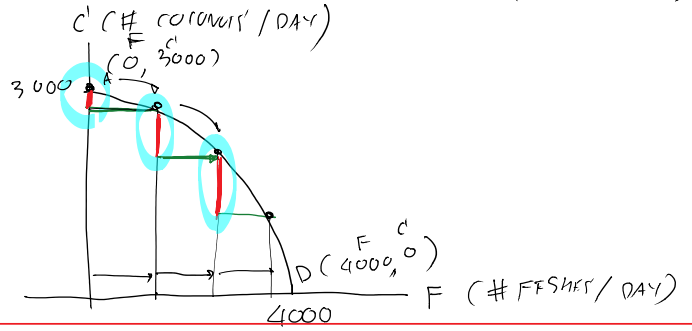
$\frac{25}{20} = 1\frac{1}{4}$ C !!!



W/ CONCAVE PPC, WE OBSERVE THAT OPPORTUNITY COST OF OBTAINING AN ADDITIONAL FISH IS NOT CONSTANT, BUT INCREASING! (WHY?)

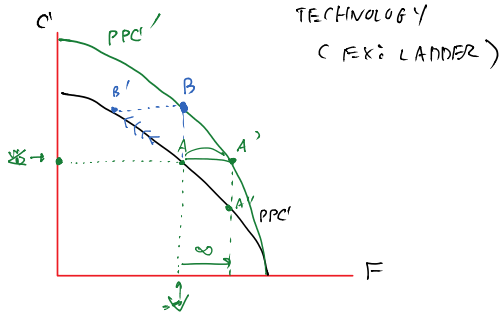
LET'S OFFER AN ECONOMIC EXPLANATION . . .

SUPPOSE MR TOM. HAS 100 WORKERS THAT HE CAN ASSIGN TO DO 2 PRODUCTION ACTIVITIES: FISH CATCHING & COCONUT GATHERING

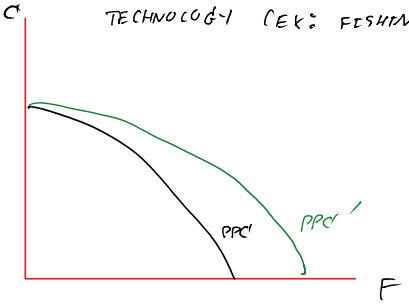


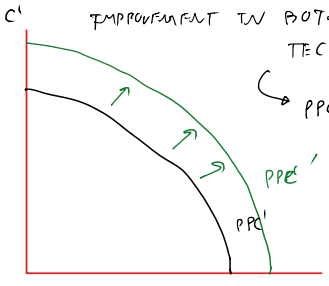
" DIFFERENCES IN SKILLS / SPECIALIZATION OF YOUR RESOURCES CAUSE "INCREASING OPPORTUNITY COSTS."

IMPROVEMENT IN COCONUT GATHERING TECHNOLOGY (EX: LADDER)

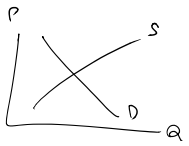


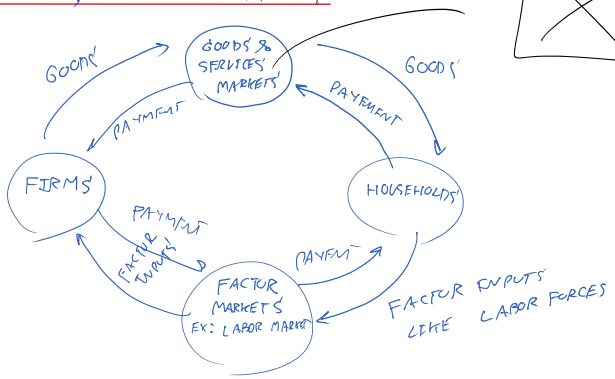
IMPROVEMENT IN FISH CATCHING TECHNOLOGY (EX: FISHING RODS)





DEMAND, SUPPLY, AND EQUILIBRIUM





CIRCULAR FLOW OF A CLOSED ECONOMY.
W/O BANK, W/O GOVERNMENT.

MARKET : PLACE WHERE BUYERS AND SELLERS MEET.

- PHYSICAL SPACE
- VIRTUAL SPACE

FIRST, TO ASSIST OUR UNDERSTANDING ABOUT SUPPLY AND DEMAND, WE TAKE A LOOK AT **"A PERFECTLY COMPETITIVE MARKET"**

- LARGE NUMBER OF BUYERS AND SELLERS
- HOMOGENEOUS PRODUCTS (NON-DIFFERENTIATED PRODUCTS)
- NO BARRIER TO ENTRY "" EXIT

25.08.16

DEMAND : BEHAVIOR OF BUYERS IN A MARKET

QUANTITY DEMANDED : AMOUNT OF A GOOD OR SERVICE BUYER(S) IS(ARE) WILLING TO BUY FOR SOME TIME PERIOD GIVEN PRICE LEVEL.

DEMAND SCHEDULE (TABLE) : A TABLE SHOWING HOW MANY UNITS OF A GOOD OR SERVICE A BUYER IS WILLING TO BUY AT VARIOUS PRICES.

CONSIDER A MARKET FOR ICECREAM WHICH IS ASSUMED TO BE "PERFECTLY COMPETITIVE".

BEN IS OUR REPRESENTATIVE CONSUMER.

LET P_x = PRICE OF ICECREAM (BAHT/SCOOP)

Q_x^d = QUANTITY DEMANDED FOR ICECREAM (# OF SCOOPS/WK)

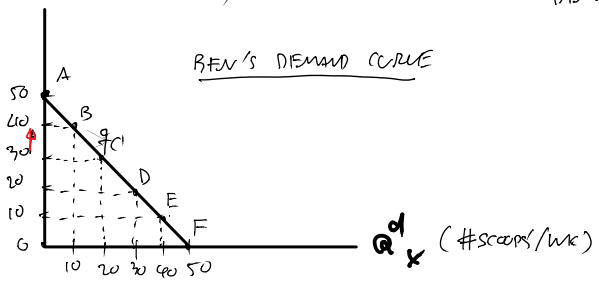
	P_x	Q_x^d
A	50	0
B	40	10
C	30	20
D	20	30
E	10	40
F	0	50

OBSERVE THAT AT HIGH PRICES, HE TENDS TO CONSUME LESS

AT LOW PRICES, HE TENDS TO CONSUME MORE.

E	10	40
F	0	50

P_x (PRICE/SCOOP)



BEN'S DEMAND CURVE

CONSUME MORE.

DEMAND CURVE: GRAPHIC REPRESENTATION OF INVERSE RELATIONSHIP BETWEEN QUANTITY DEMANDED FOR ICECREAM AND ITS PRICE.

FACT #1 THE DEMAND CURVE IS DOWNWARD SLOPING, (FROM LEFT TO RIGHT)

FACT #2 AT HIGHER PRICES, HE BUYS LESS AT LOWER PRICES, HE BUYS MORE.

FACT #3 WHEN PRICE GOES UP, QUANTITY DEMANDED FALLS AND WHEN PRICE GOES DOWN, QUANTITY DEMANDED RISES.

LAW OF DEMAND: A CLAIM THAT WHEN PRICE OF A GOOD RISES AND EVERYTHING ELSE REMAINS THE SAME, QUANTITY DEMANDED WILL FALL. ALSO, WHEN PRICE OF A GOOD FALLS AND EVERYTHING ELSE REMAINS THE SAME, QUANTITY DEMANDED WILL RISE.

"CETERIS PARIBUS"

WE PERFECTLY KNOW THAT THERE ARE MANY OTHER FACTORS, APART FROM PRICE OF ICECREAM, THAT AFFECT MR. BEN'S PURCHASE BEHAVIOR. (EX: INCOME, WEATHER, PRICE OF OTHER DESSERTS, ETC.).

SO, LAW OF DEMAND STATES THAT IF THESE FACTORS ARE HOLDING CONSTANT AND IF PRICE OF ICECREAM FALLS, HE WILL BUY MORE ICECREAM.

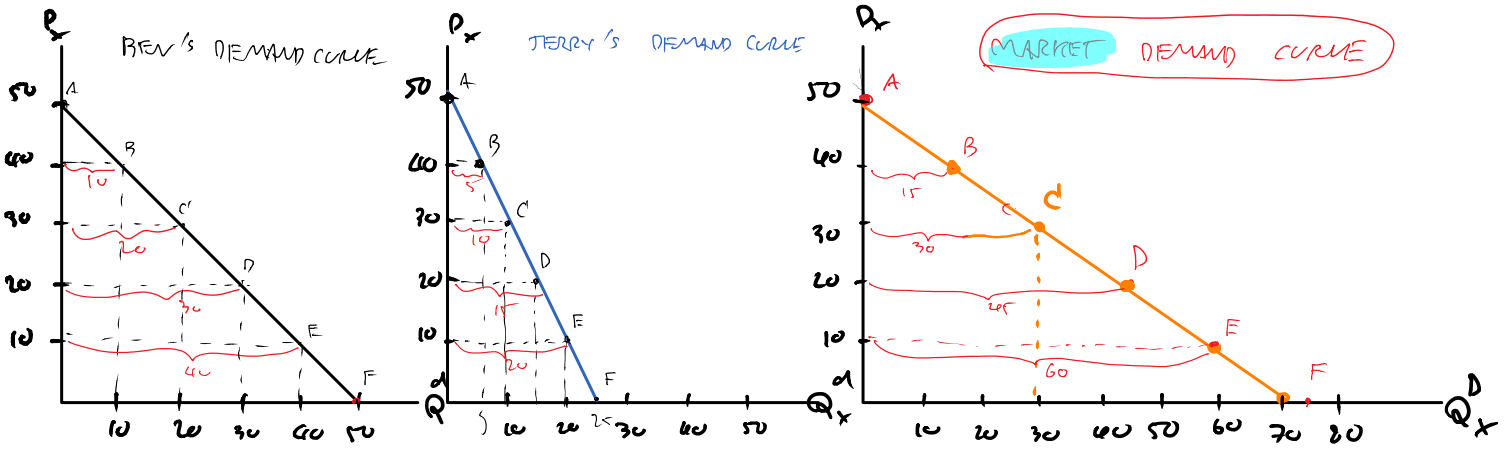
FROM AN INDIVIDUAL DEMAND CURVE TO A MARKET DEMAND CURVE

CONSIDER A MARKET WITH 2 CONSUMERS: BEN & JERRY.

	P_x	$Q^d_{x,\,BEN}$		$Q^d_{x,\,JERRY}$		Q^D_x
A	50	0	+	0	=	0
B	40	10	+	5	=	15
C	30	20	+	10	=	30
	20					

Q^D_x = MARKET QUANTITY DEMANDED = SUM OF ALL CONSUMERS' QUANTITY DEMANDED AT A GIVEN PRICE LEVEL

C	30	20	+	10	=	30
D	20	30	+	15	=	45
E	10	40	+	20	=	60
F	0	50	+	25	=	75

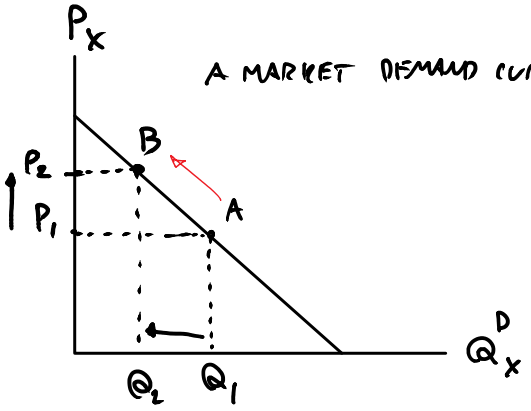


AT $P = 30$, $Q^D_X = 30$ (POINT C)

AT $P = 20$, $Q^D_X = 45$. (POINT D)

AT $P = 10$, $Q^D = 60$. (POINT E)

MOVEMENTS ALONG THE DEMAND CURVE VS. SHIFTS OF THE DEMAND CURVE

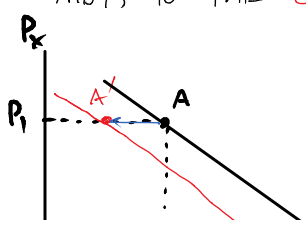


MOVEMENTS OCCUR ALONG THE DEMAND CURVE AS A RESULT OF CHANGES IN PRICE.

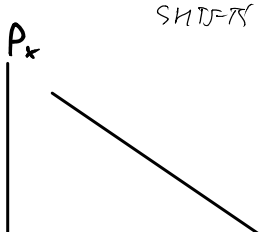
WHEN PRICE INCREASES FROM P_1 TO P_2, QUANTITY DEMANDED DECREASES FROM Q_1 TO Q_2 (MOVEMENT ALONG THE CURVE FROM A TO B)

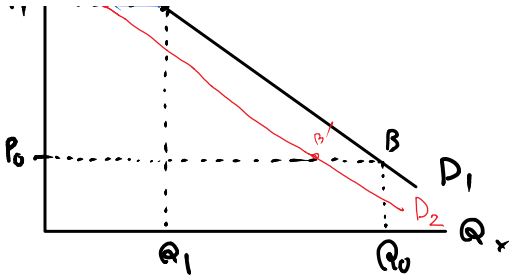
SHIFTS OF THE DEMAND CURVE

DEMAND CURVE SHIFTS TO THE LEFT



DEMAND CURVE SHIFTS TO THE RIGHT





SUPPOSE THAT BUYERS GET POORER ☹

DEMAND CURVE WILL SHIFT TO THE LEFT FROM D_1 TO D_2.

QUANTITY DEMAND HAS DECREASED AT EVERY PRICE WE OBSERVED.