Wednesday, August 22, 2012
9:30 AM

SELF-STUDY ISSUES

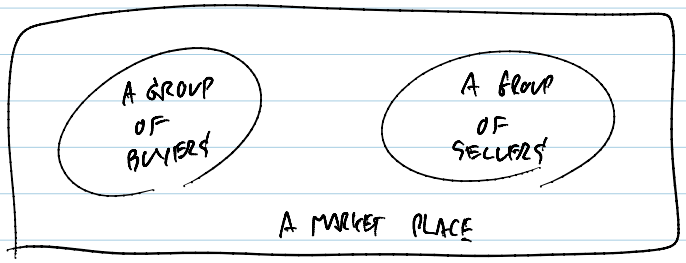
① WHAT IS POSITIVE ECONOMICS?
② WHAT IS NORMATIVE ECONOMICS?
③ HOW THEORY IS DEVELOPED?

} TOPIC 1.5 IN THE COURSE SYLLABUS

BEHAVIOR OF SELLERS

DEMAND, SUPPLY, AND EQUILIBRIUM

BEHAVIOR OF BUYERS



ON A VOLUNTARY BASIS

- THERE MUST BE "A MUTUAL GAIN" FROM TRADE. (OR TRANSACTION OR EXCHANGE)
- WE BEGIN W/ CHARACTERISTICS OF A MARKET BEHIND OUR TALK.

THERE ARE SOME CHARACTERISTICS:

① GOODS ARE NON-DIFFERENTIATED GOODS.
② THERE ARE A LARGE NUMBER OF BUYERS AND SELLERS

IMPLICATION? BUYERS AND SELLER ARE "PRICE TAKERS"

BOTH TAKE PRICE AS GIVEN AND MAKE DECISION:
FOR BUYERS: PURCHASE DECISION
FOR SELLER: OUTPUT DECISION

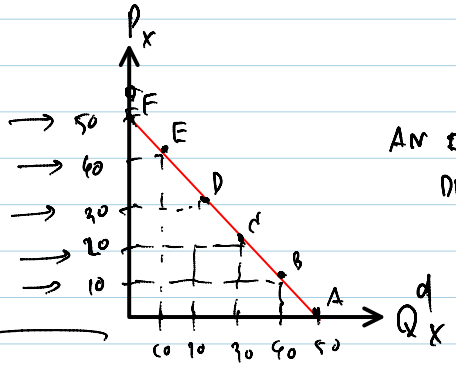
DEMAND: BEHAVIOR OF BUYERS

QUANTITY DEMANDED = AMOUNT OF GOODS THAT A BUYER IS WILLING TO AND ABLE TO BUY AT A GIVEN PRICE FOR A GIVEN TIME PERIOD.

LET Q_X^d = QUANTITY DEMANDED FOR GOOD X

P_X = PRICE OF GOOD X

	P_X	Q_X^d
A	0	50
B	10	40
C	20	30
D	30	20
E	40	10
F	50	0



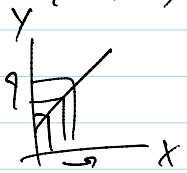
$Q_X^d = f(P_X)$

AN INDIVIDUAL DEMAND CURVE.

1ST OBSERVATION: WHEN PRICE IS LOWER, HE BUYS MORE.
(OR HIS QUANTITY DEMANDED INCREASES)

2ND OBSERVATION: WHEN PRICE IS HIGHER, HE TENDS TO BUY LESS.

$Y = f(X)$



SO, QUANTITY DEMANDED (Q_X^d) AND ITS OWN PRICE (P_X) ARE NEGATIVELY RELATED.

IN SHORT,

> WHEN P_X RISES, Q_X^d FALLS
> AND WHEN P_X FALLS, Q_X^d RISES

LAW OF DEMAND: IF PRICE OF GOOD X INCREASES, QUANTITY DEMANDED FOR GOOD X WILL DECREASE, AND IF PRICE OF GOOD X DECREASES, QUANTITY DEMANDED WILL INCREASE, OTHER THING BEING EQUAL.
(IN LATIN, CETERIS PARIBUS)

OTHER THING BEING EQUAL OR CETERIS PARIBUS MEANS PRICE OF GOOD Y

OTHER THING BEING EQUAL OR CETERIS PARIBUS

MEANS ...

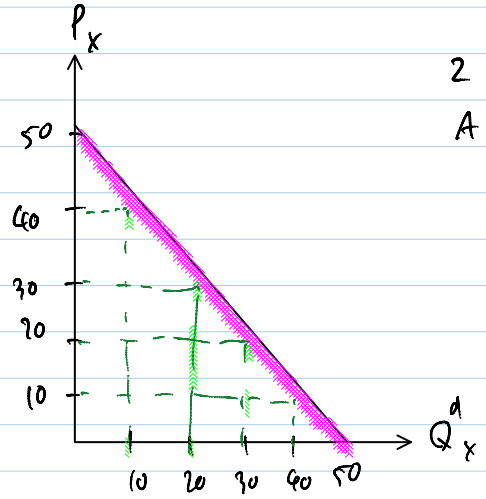
$$Q_x^d = f(P_x, \text{INCOME}, P_y, \text{TASTE OR PREFERENCE}, \text{WEATHER}, \ldots)$$

(P_y: PRICE OF GOOD Y)

WE UNDERSTAND THAT APART FROM P_x, THERE ARE SEVERAL FACTORS THAT AFFECT AMOUNT THAT A CONSUMER IS GOING TO PURCHASE. CETERIS PARIBUS MEANS THAT WHEN WE OBSERVE THE RELATIONSHIP BETWEEN Q_x^d AND P_x, ALL OTHER VARIABLES REMAIN UNCHANGED.

LET'S SEE

P_x	Q_x^d	INCOME (BAHT/MK)	P_y
0	50	2000	20
10	40	2000	20
20	30	2000	20
30	20	2000	20
40	10	2000	20
50	0	2000	20



2 WAYS OF INTERPRETING A GRAPH:

① HORIZONTAL INTERPRETATION

② VERTICAL INTERPRETATION

FOR HORIZONTAL:

AT $P_x = 40$, $Q_x^d = 10$

AT $P_x = 30$, $Q_x^d = 20$

AT $P_x = 20$, $Q_x^d = 30$

AT $P_x = \ldots$, WHAT IS Q_x^d ?

FOR VERTICAL : AT Q = ..., WHAT IS P ?

Ex: AT $Q_x^d = 20$, $P_x = 30$.

MEANING: TO INDUCE THIS GUY TO BUY IN TOTAL 20 UNITS OF ICECREAM, THE MAXIMUM PRICE HE IS WILLING TO ACCEPT IS 30 BAHT/SCOOP.

↙ WE CALL THIS " WILLINGNESS TO PAY (WTP)"

(24.8.2012)

- INDIVIDUAL DEMAND CURVE Vs. MARKET DEMAND CURVE

WE DERIVE A MARKET DEMAND CURVE FROM HORIZONTAL SUMMATION OF ALL INDIVIDUAL DEMAND CURVE.

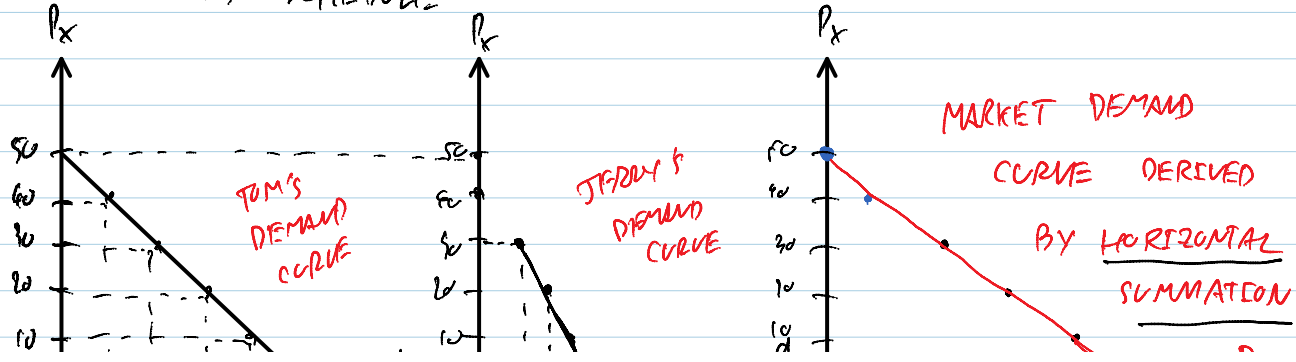
SUPPOSE : CONSIDER A MARKET W/ ONLY 2 BUYERS.

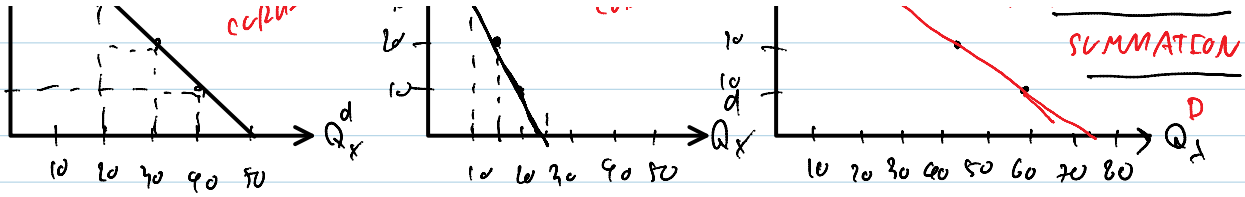
P_x	$Q_x^{d,TOM}$	$Q_x^{d,JERRY}$	$Q_x^{d,T+J}$ or Q_x^d
0	50	25	75
10	40	20	60
20	30	15	45
30	20	10	30
40	10	0	10
50	0	0	0

MR. TOM & MR. JERRY

- X = ICECREAM

"DEMAND SCHEDULE"





DETERMINANTS OR FACTORS AFFECTING DEMAND

$$Q^D_X = f(\overset{-}{P_X}, \text{INCOME}, \overset{+/-\ \text{FOR SUBSTITUTES}}{P_Y}, \overset{+/-\ \text{FOR COMPLEMENTS}}{\text{TASTES}}, \#\ \text{OF BUYERS}, \text{WEATHER}, \text{PRICE EXPECTATION})$$

Q^D_X = QUANTITY DEMANDED FOR GOOD X

P_X = PRICE OF GOOD X

INCOME = INCOME

P_Y = PRICE OF RELATED GOOD.

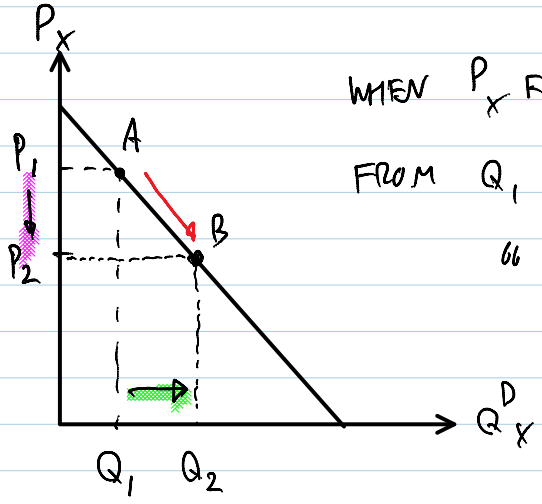
- NORMAL GOOD : WHEN INCOME RISES, Q^d_X RISES
  AND WHEN INCOME FALLS, Q^d_X FALLS
- INFERIOR GOOD : WHEN INCOME RISES, Q^d_X FALLS.
  AND WHEN INCOME FALLS, Q^d_X RISES,
- COMPLEMENTS : IF X AND Y ARE "COMPLEMENTS"
  THEN Q^D_X WOULD FALL WHEN P_Y RISES,
  VICE VERSA.
- SUBSTITUTES : IF X AND Y ARE "SUBSTITUTES",
  THEN Q^D_X WOULD RISE WHEN P_Y RISES,
  VICE VERSA.
  Ex: COKE Vs. PEPSI
- PRICE EXPECTATION : WHEN PEOPLE EXPECT THAT
  PRICE WILL BE HIGHER,

THEY WILL BUY MORE AT THE CURRENT PERIOD.

WHEN PEOPLE ANTICIPATE THAT PRICE WILL BE LOWER IN THE NEXT FEW MONTHS, THEY WOULD TEND TO BUY MORE AT THE CURRENT PERIOD.

- EXPECTATION ON INCOME:

MOVE ALONG THE CURVE Vs. SHIFT OF THE CURVE

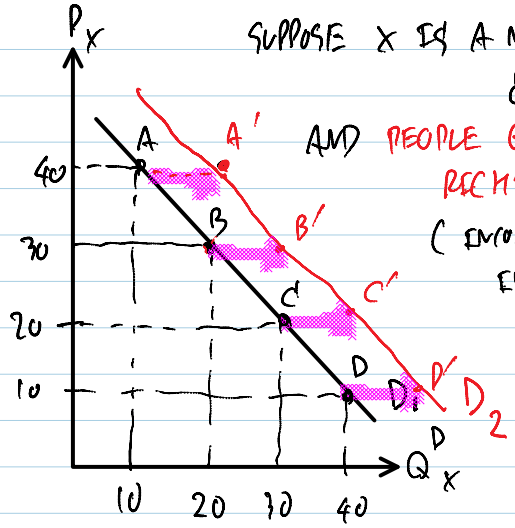


WHEN P_X FALLS FROM P_1 TO P_2, Q^D_X RISES FROM Q_1 TO Q_2, CETERIS PARIBUS.

"MOVE ALONG THE CURVE" FROM A TO B. (PURELY BECAUSE OF PRICE CHANGE)

FORMALLY, MOVEMENT ALONG THE CURVE IMPLIES THAT WHEN PRICE CHANGES (↑ OR ↓), QUANTITY DEMANDED WOULD CHANGE (↑ OR ↓).

SHIFT OF THE DEMAND CURVE



SUPPOSE X IS A NORMAL GOOD AND PEOPLE GET RICHER (INCOME INCREASES)

RIGHTWARD SHIFT OF THE DEMAND CURVE (DUE TO AN INCREASE IN INCOME)

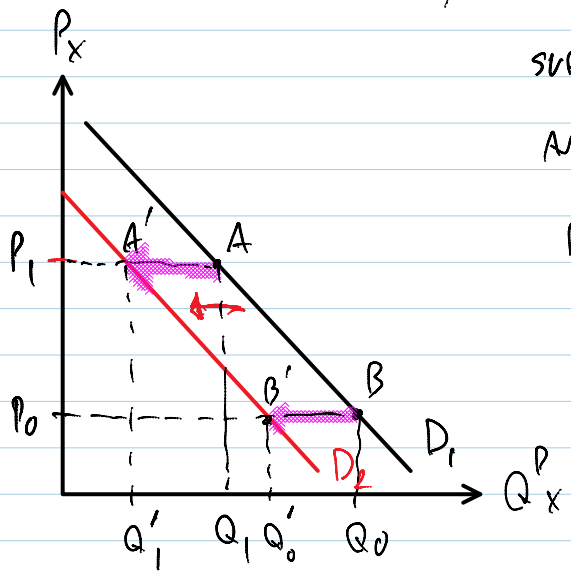
WE CALL THIS PHENOMENA

"INCREASE IN DEMAND (CURVE)"

MEANING?

ON EVERY PRICE (YOU ARE LOOKING AT), QUANTITY DEMANDED INCREASES!

- ON EVERY PRICE, DEMAND INCREASES ✗
- ON EVERY PRICE, DEMAND RISES. ✗



SUPPOSE X IS A NORMAL GOOD. AND PEOPLE ANTICIPATE THAT P_X WILL BE CHEAPER IN THE NEXT FEW MONTHS.

Q: WHAT WOULD HAPPEN TO THE DEMAND CURVE D_1?

- LEFTWARD SHIFT OF A DEMAND CURVE

"THIS PHENOMENA IS CALLED "DECREASE IN DEMAND"

WHICH MEANS THAT "AT ANY GIVEN PRICE LEVEL, QUANTITY DEMANDED DECREASES".