MARKET

Market is a place where consumers meet sellers and the trading takes place. The consumers buy products at certain price, so money is exchanged for goods and services.
We distinguish 2 types of market **according the number of goods:**

- **Partial market** - where only one type of good is sold, for example car market
- **Aggregate market** - offers all kind of goods and services
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We divide market into more types **according to type of object** that is bought and sold:

- market of factors of production
- market of goods and services
- finantial market
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According to **size** we divide:

- regional market
- national
- world market

Subjects of market

Firms - produce goods and services and sell them to make profits. They buy labour, land and capital
Households - they act like consumers, they buy goods and services. They sell the factors of production
State - is a special subject of market. It helps to remove negative results of market and protects competition

Market imperfections

- monopolies - if there is monopoly in the market, this is lack of competition, increase in prices
- existence of public sector - some services are not profitable, that´s why it is the government task to provide these services (social services, health care, education..)
- externalities - negative externalities (for example nature pollution) have to be solved by the government

DEMAND &SUPPLY

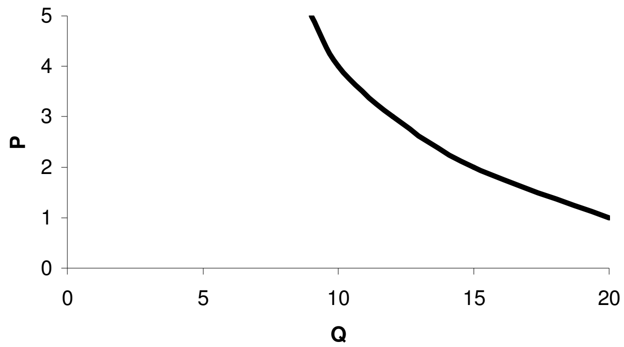
DEMAND

In a market economy, the amount of a commodity people buy depends on its price. The higher the price of an article, other things being equal, the fewer units consumers are willing to buy. The lower its market price, the more units of it are bought.
There exists a definite relationship between he market price of a good and the quantity demanded of that good, other things held equal.
This relationship between price and quantity bought is called the **demand schedule** of **demand curve**.
DEMAND – Amount of commodity, which consumers will buy at a price over a period of time

DEMAND CURVE

The graphical presentation of the demand schedule is the demand curve. The demand curve for the above schedule can be shown by putting the quantity of cornflakes demanded on the horizontal axis and the price of cornflakes on the vertical axis.

Note that the quantity and price are inversely related.



The curve slopes downwards. This important property is called the **"law of downward sloping demand"**

It is based on common sense as well as economic theory and it has been empirically rested & verified for particularly all commodities

The law of downward-sloping demand – The higher the price of a commodity, the lower the quantity demanded of such commodity, all thing being equal and vice versa.

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DETERMINANTS OF MARKET DEMAND CURVE

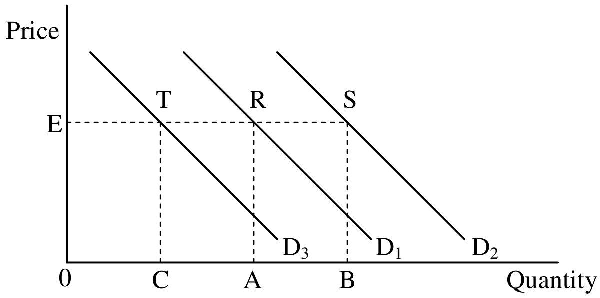
1. **Price** is the major determinant of the quantity demanded. Consumers generally tend to buy more of a commodity when its price falls and less, when the price rises.
2. **Average level of income of consumers** - with an increase I income, consumers are able to buy more of a commodity, other things being equal. However, consumers tend to buy less when their income falls.
1. **The size of the population** – when the number of consumers of a commodity increases, more of that commodity tend to be bought
   Age structure - when a population contains more children than the old, demand for children's goods tend to be greater than demand for goods needed by the old
2. **Prices and availability of related goods** - some goods are close substitutes such as margarine and butter. If the price of one goes up, more of the other will be demanded.
3. **Tastes and preferences** – represent a variety of cultural and historical influences.
4. **Special influences** – weather rainfall increase demand for umbrellas, snow fall
5. **Government legislation (taxation**) – and increase in taxation means less income for consumers and thus a fall in consumers` demand.
6. **Fear of future rise in price**
7. **Changes in fashion** - consumers tend to buy more of the commodity they like best. Also new commodities tend to be preferred to old ones by consumers.

Note that when price changes, there is said to be a **MOVEMENT** along the curve and a change in any other variable affecting demand such as income is shown by a **SHIFT** in the demand curve.

SHIFT IN DEMAND CURVE

A change in the relationship between the price of a good and the quantity demanded cause by a change in something other than the price of the good.

Complements – goods whose use together enhances the satisfaction a consumer's needs and wants.



An increase in income will raise demand for a normal good. At a price 0E for instance, the demand will raise form 0A to 0B. Similarly, at all other prices increase in income will result in a level of demand to the right of the existing demand curve. So the demand curve still shifts from D_1 to D_2.

A fall in income will result in less being demanded at any given price. Hence the demand curve will shift to the left from D_1 to D_3.

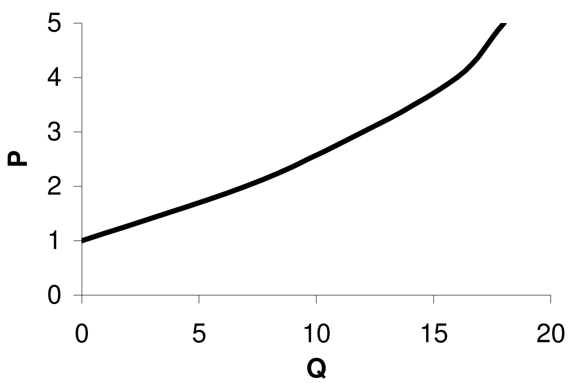
- Increase in income
- Expectation of future increase in price
- Change in taste or fashion that makes the item more popular
- Increase in price of substitute
- Decrease in price of complement
- Increase in number of buyers served by the market

SUPPLY

In any market, there are buyers and sellers. Buyers demand goods while sellers supply goods.

SUPPLY in economics is defined as the quantity of goods that sellers are prepared to sell at any given price over a period of time.

SUPPLY CURVE



The supply curve is upward sloping showing that companies produce more when price increases.

DETERMINANTS OF SUPPLY

PRICE – when price increases, producers are likely to expand production to take advantage of the higher prices and higher profits that they can make. In general, quantity supplied will rise if the price of the good also rises.

COST OF PRODUCTION – when production costs are low relatively to the market price, it is profitable for producers to supply a great deal. When production costs are high relative to price, firms produce little, switch to the production of other products, or may simply go out of business. Because of the cost of production increase at any given level of output, firms will attempt to pass on these increases in the form of higher prices, if they cannot change higher prices, then profits will fall & firms will produce less. A rise in the cost of production will lead to decrease in supply.

STATE OF TECHNOLOGY – if new technology is introduced to the production process, it should lead to a fall in the costs of production.

PRICES OF OTHER GOODS – changes in the prices of some goods can affect the supply of a particular good. E.g. if the price of beef increases substantially, there will be an increase in the quantity of beef supplied.

GOVERNMENT LEGISLATION – antipollution controls which raise the costs of production. Abolition of legal barriers to setting up businesses, or tax changes are some examples of how government can change the level of supply in an industry.

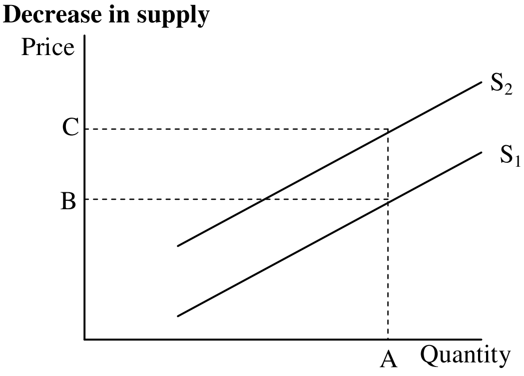
EXPECTATION OF FUTURE EVENTS – if firms expect future prices to be much higher, they may restrict supplies & stockpile goods, if they expect disruption to their future production, because of a strike they may stockpile raw materials, paying for them with borrowed money thus increasing their costs and reducing supply.

WEATHER – in agricultural markets the weather plays a conceal role in determining supply. Bad weather reduces supply and good with produces bumper yields.

SHIFTS IN SUPPLY

A change in the relationship between the price of a good and the quantity supplied in response to a change in a supply determinant other than price of the good.

Decrease in supply



- Change in the number of sellers
- Change in prices of factors
- Change in technology
- Change in the price of other item that can be produced
- Change in the sellers of resources
- Expectations about future prices of G&S and inputs

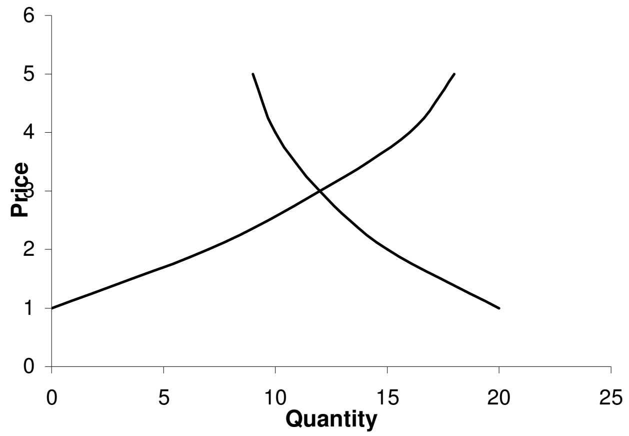
A rise in the costs of production for a firm will push its supply curve upwards and to the left from S_1 to S_2 **for any given quantity supplied, firms will now want a higher price to compensate them for the increase in their costs**.

PRICE AND OUTPUT DETERMINATION

EQUILIBRIUM OF SUPPLY & DEMAND

. The supply and demand interact to produce an equilibrium price and quantity, or **market equilibrium**.

The market equilibrium comes at that price and quantity where the forces of supply and demand are in balance. At equilibrium price, the amount that buyers want to buy is just equal to the amount the sellers want to sell. The reason why this is called equilibrium is that when Demand & Supply are in balance, there is reason for price to raise or fall, as long as other things remain unchanged.



Equilibrium comes where quantity demanded equals quantity supplied. Only at the equilibrium price of $3 per box does amount supplied equals amount demanded.

At too low a price, there is a shortage and price tends to rise. Too high price produces a surplus, which will depress price.

At the equilibrium price of $3 there is no tendency for price to rise or fall, and inventories of cornflakes are neither growing nor declining. We also say that $3 is the "market clearing price". Meaning that all supply and demand orders are filled and demanders and suppliers are satisfied.

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