

Managerial Economics

Lecture Delivered by
Prof. Muhammad Azeem
www.azmecon.blogspot.com

Assuming all other things held constant, with a decrease in the price of a good, the quantity demanded will increase.

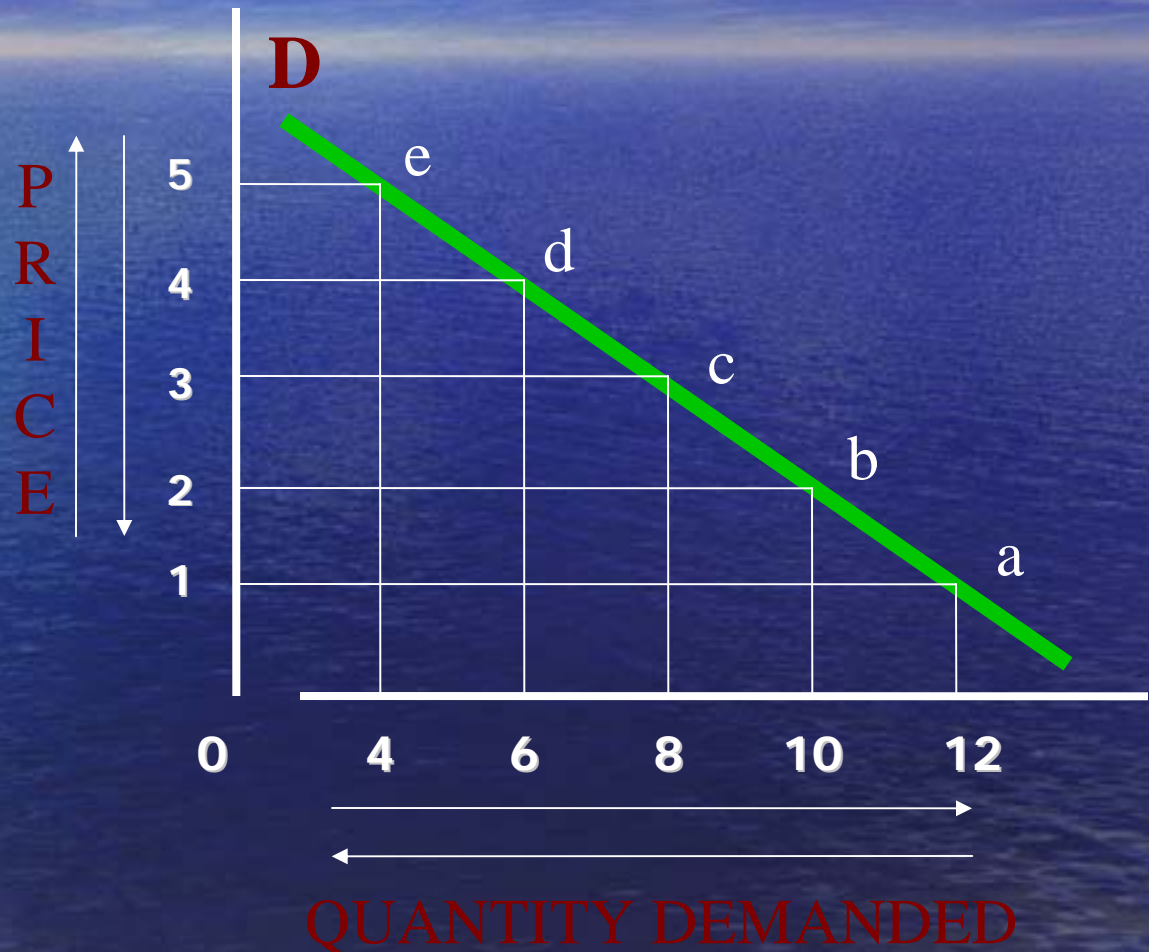
Assuming all other things held constant, with an increase in the price of a good, the quantity demanded will decrease.

Law of Demand

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P	Q_d
1	12
2	10
3	8
4	6
5	4



Assuming all other things held constant, with a decrease in the price of a good, the quantity supplied will decrease.

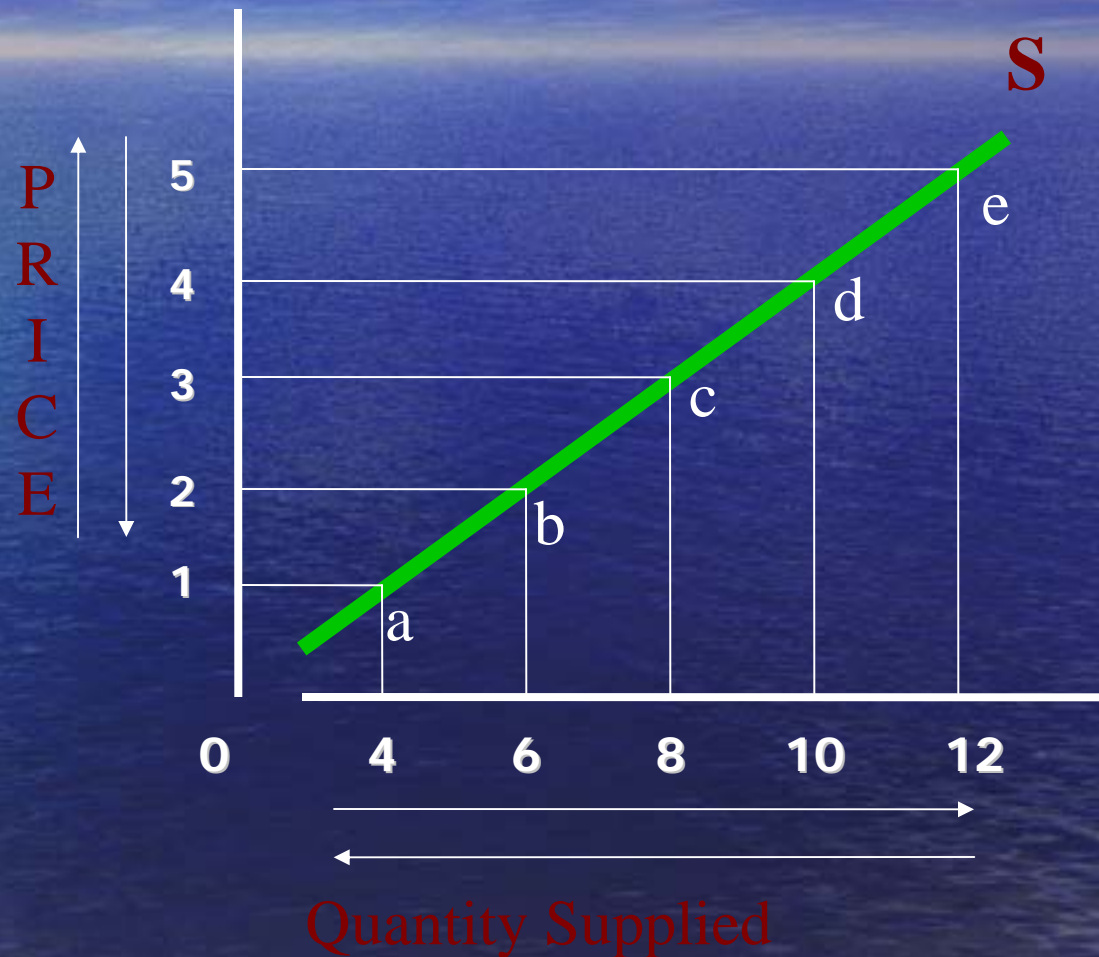
Assuming all other things held constant, with an increase in the price of a good, the quantity supplied will also increase.

Law of Supply

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P	Q_s
1	4
2	6
3	8
4	10
5	12



Market equilibrium is point where buyers and seller reach the compromise and settle down the price of the commodity. At this price quantity demanded is equal to the quantity supplied. In diagram both curves intersect at this equilibrium level. This is a stable equilibrium.

Market Equilibrium

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P	Q_d	Q_s
1	12	4
2	10	6
3	8	8
4	6	10
5	4	12

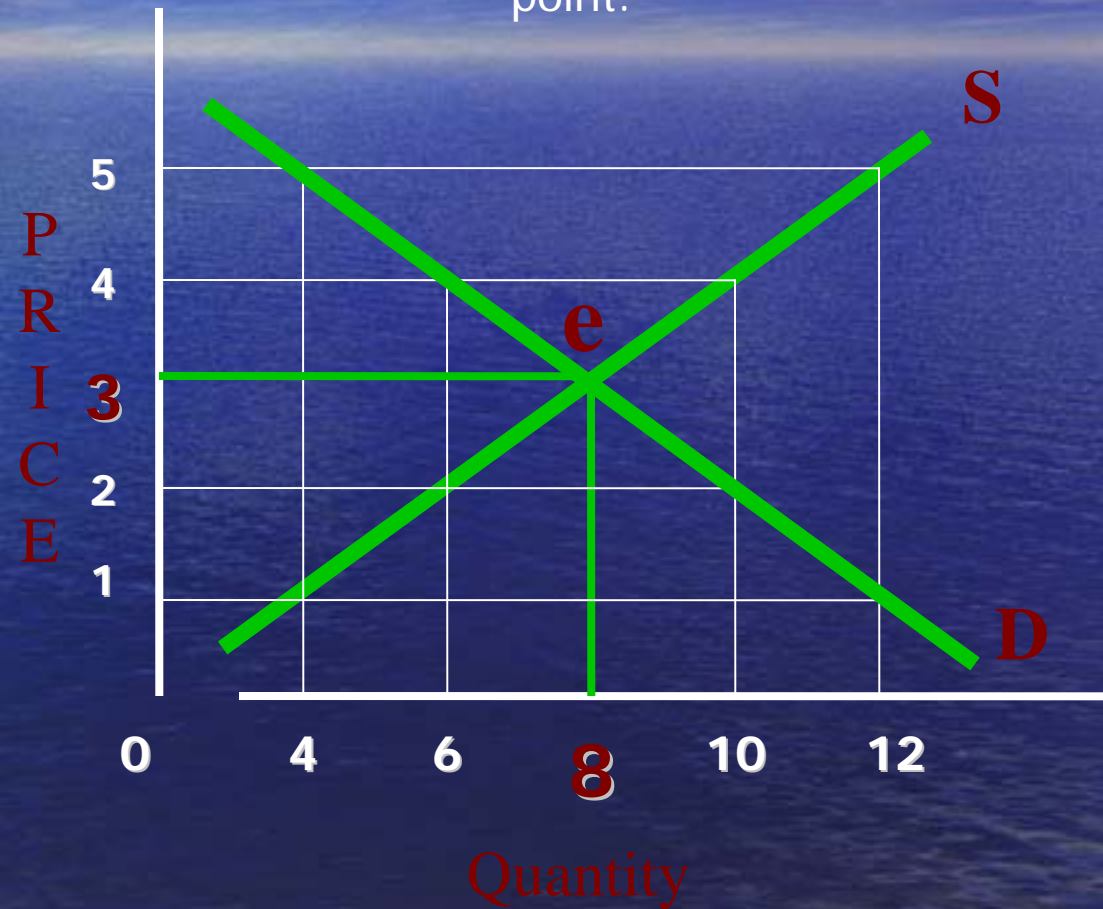
Market Equilibrium

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Point **e** is market equilibrium point.

P	Qd	Qs
1	12	4
2	10	6
3	8	8
4	6	10
5	4	12

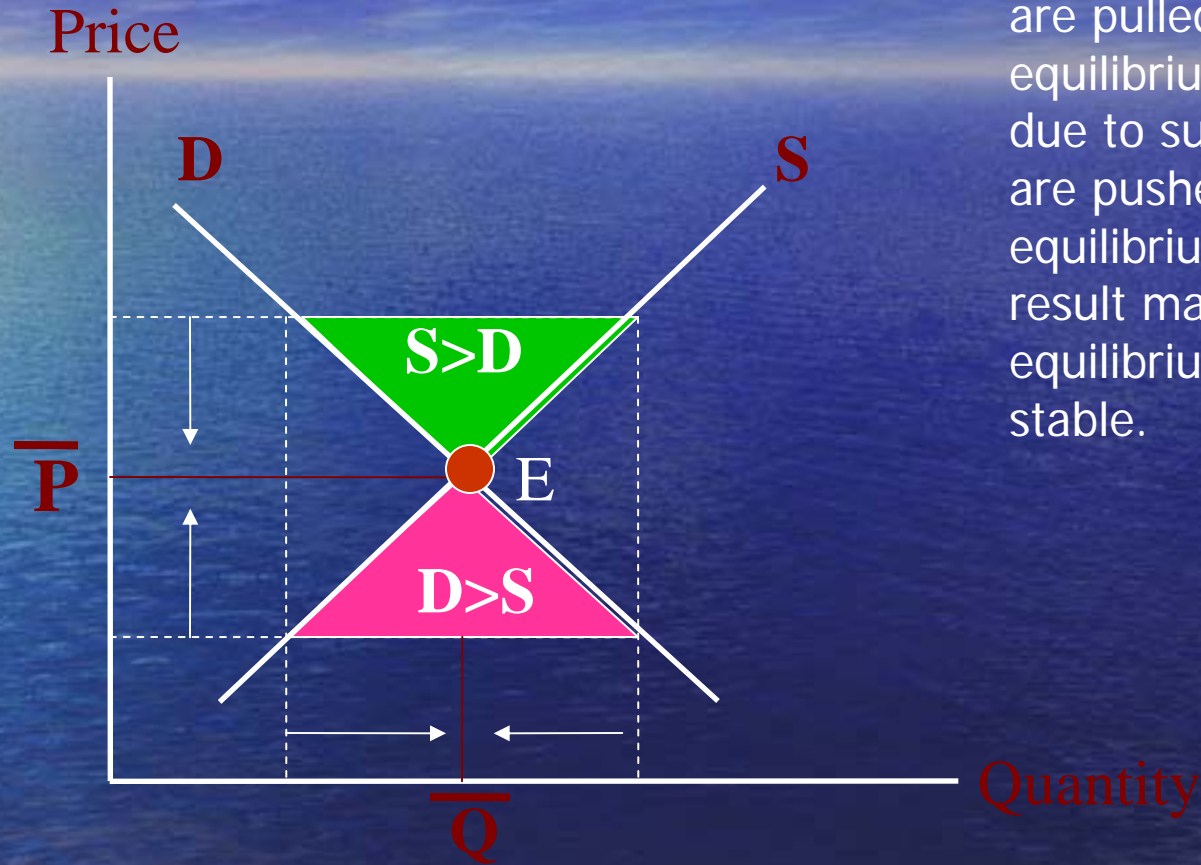


Market Equilibrium is Stable

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Due to shortage prices are pulled down to equilibrium point, and due to surplus prices are pushed up to equilibrium level. As a result market equilibrium remains stable.



Quantity



Mathematical Form of Market Equilibrium Model

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Let

$$Q_d = 14 - 2P$$

$$Q_s = 2 + 2P$$

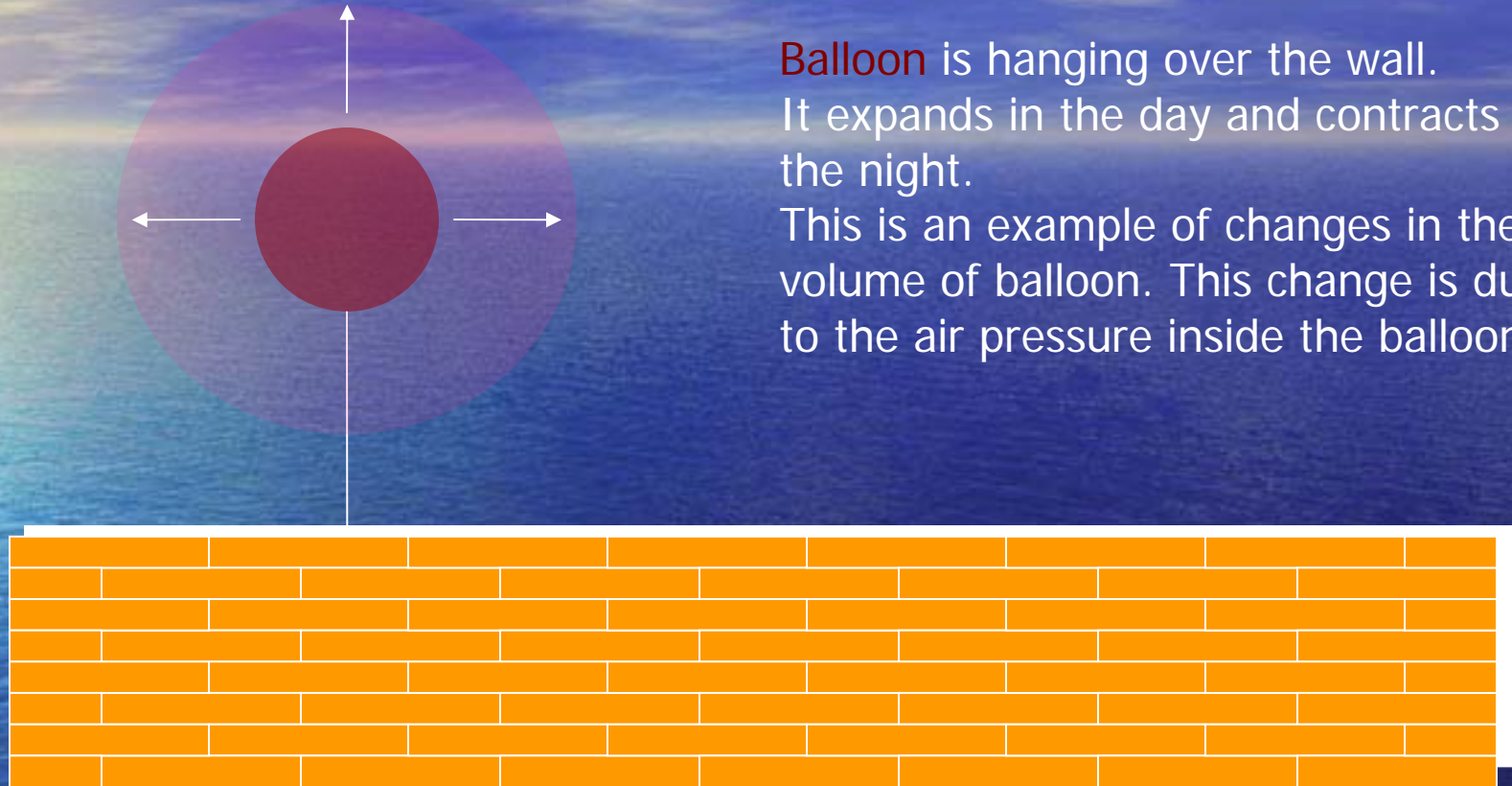
$$D = S$$

This is a simple mathematical form of market equilibrium model. Demand and supply curves are assumed to be linear. Slope of the both curves is same.

Changes in Demand and Supply

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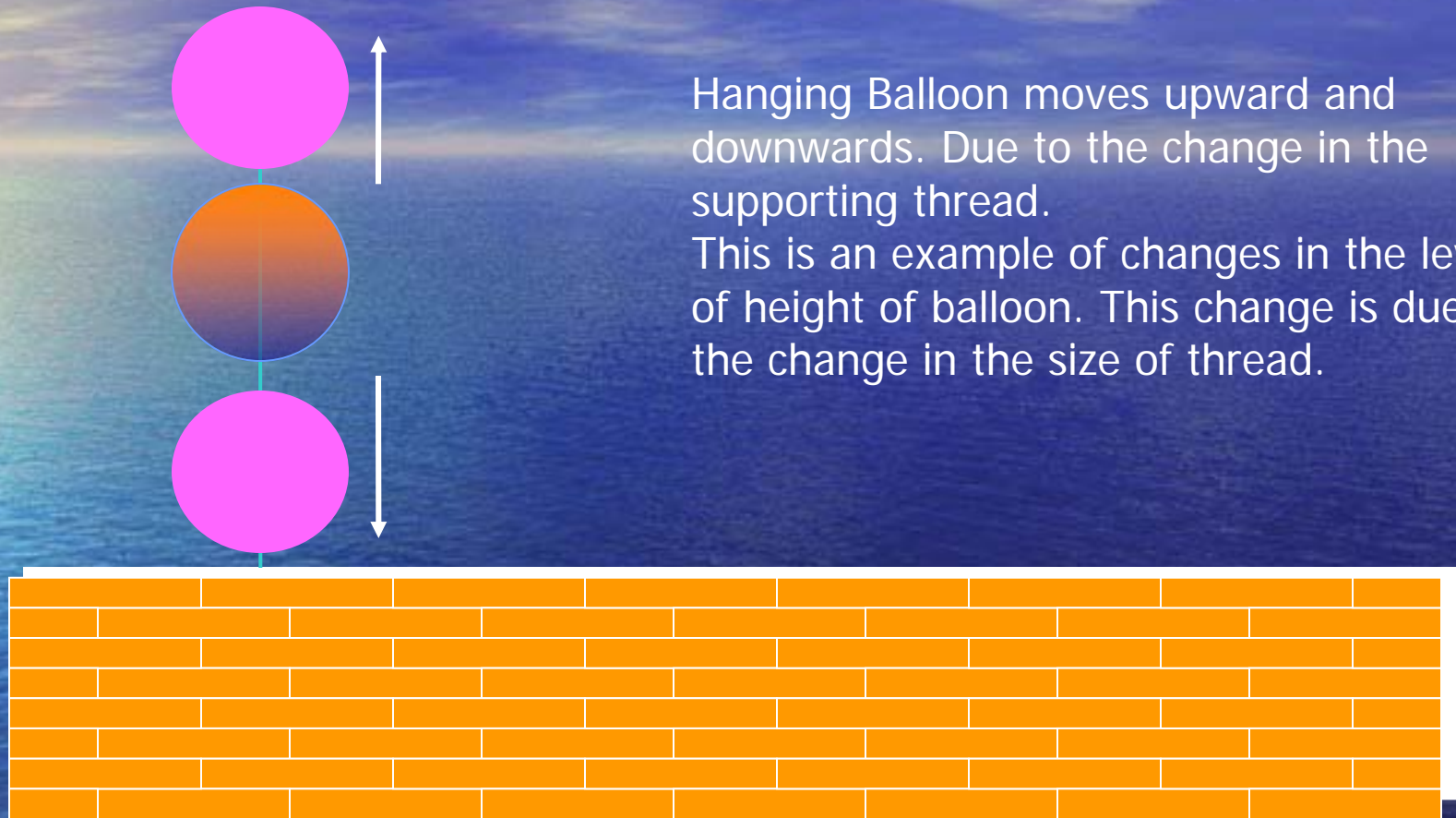
Balloon is hanging over the wall.
It expands in the day and contracts in the night.

This is an example of changes in the volume of balloon. This change is due to the air pressure inside the balloon.

Changes in Demand and Supply

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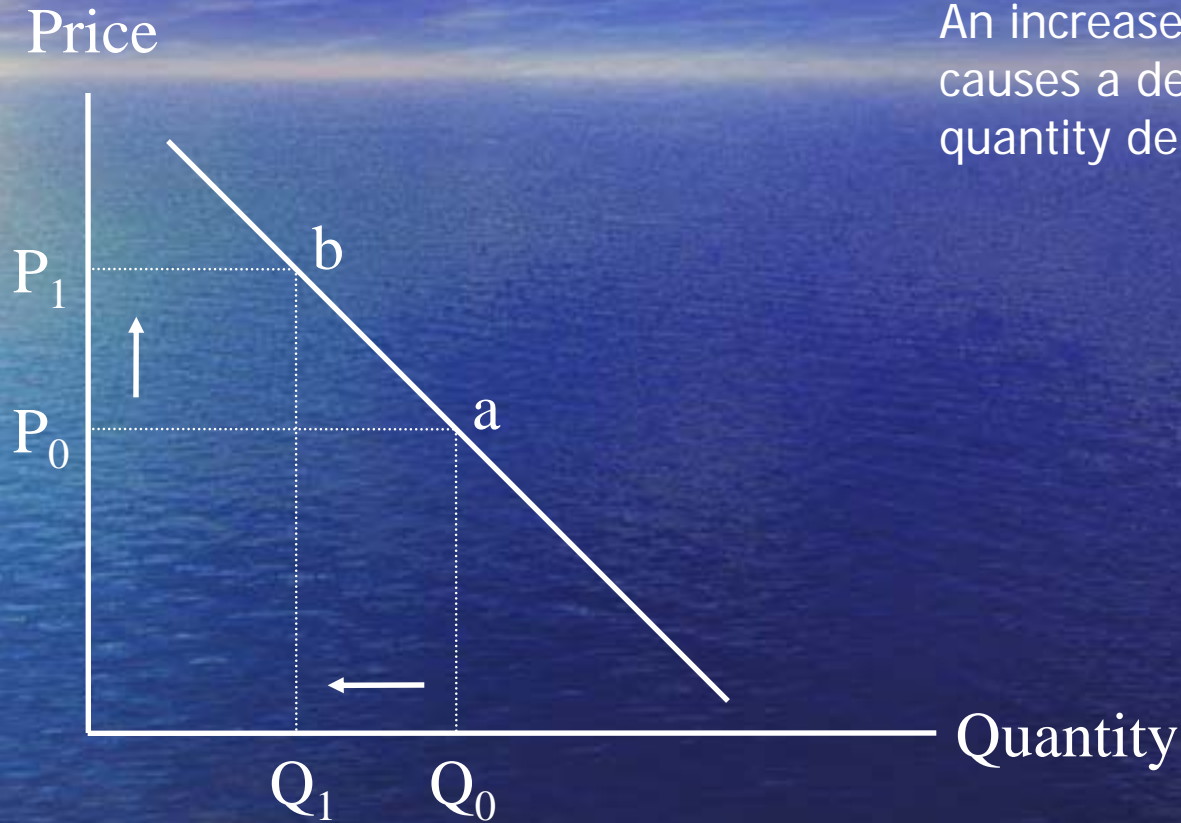
Hanging Balloon moves upward and downwards. Due to the change in the supporting thread.

This is an example of changes in the level of height of balloon. This change is due to the change in the size of thread.

Change in Quantity Demanded-Due to price

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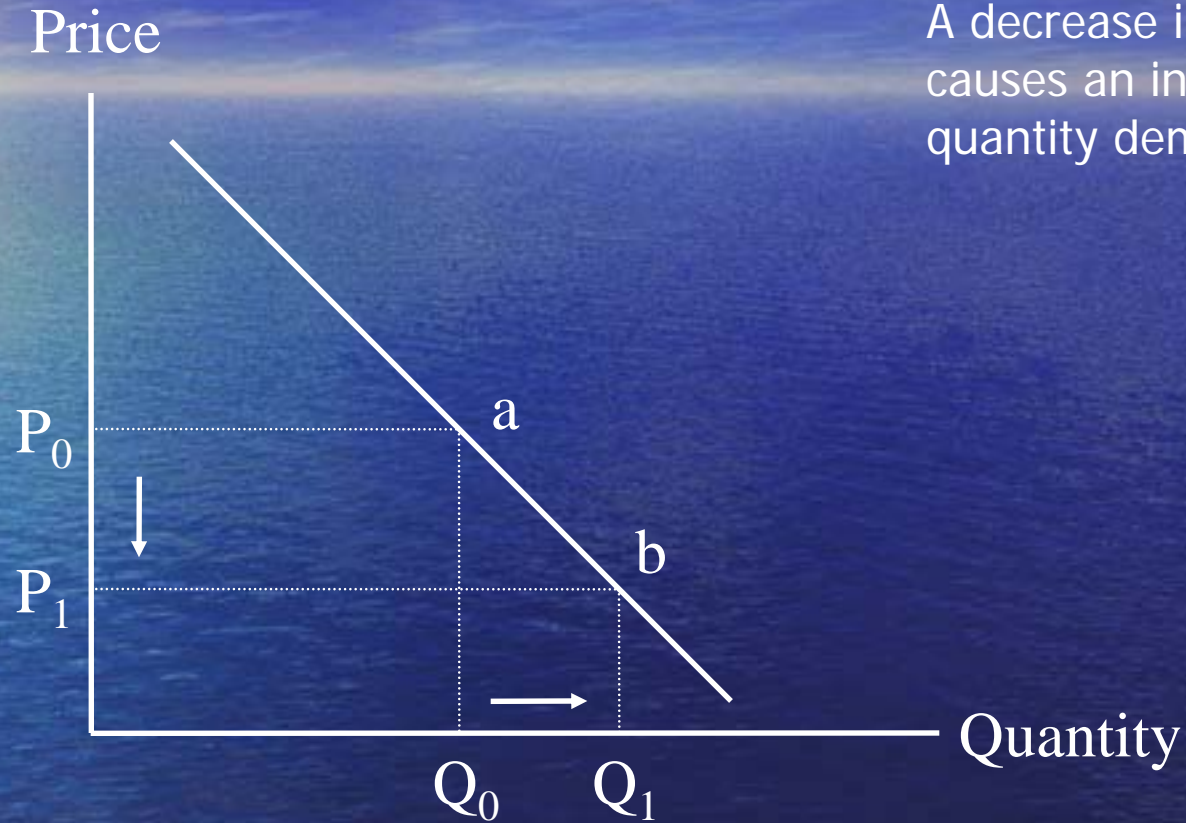


An increase in price causes a decrease in quantity demanded.

Changes in Quantity Demanded-Due to price

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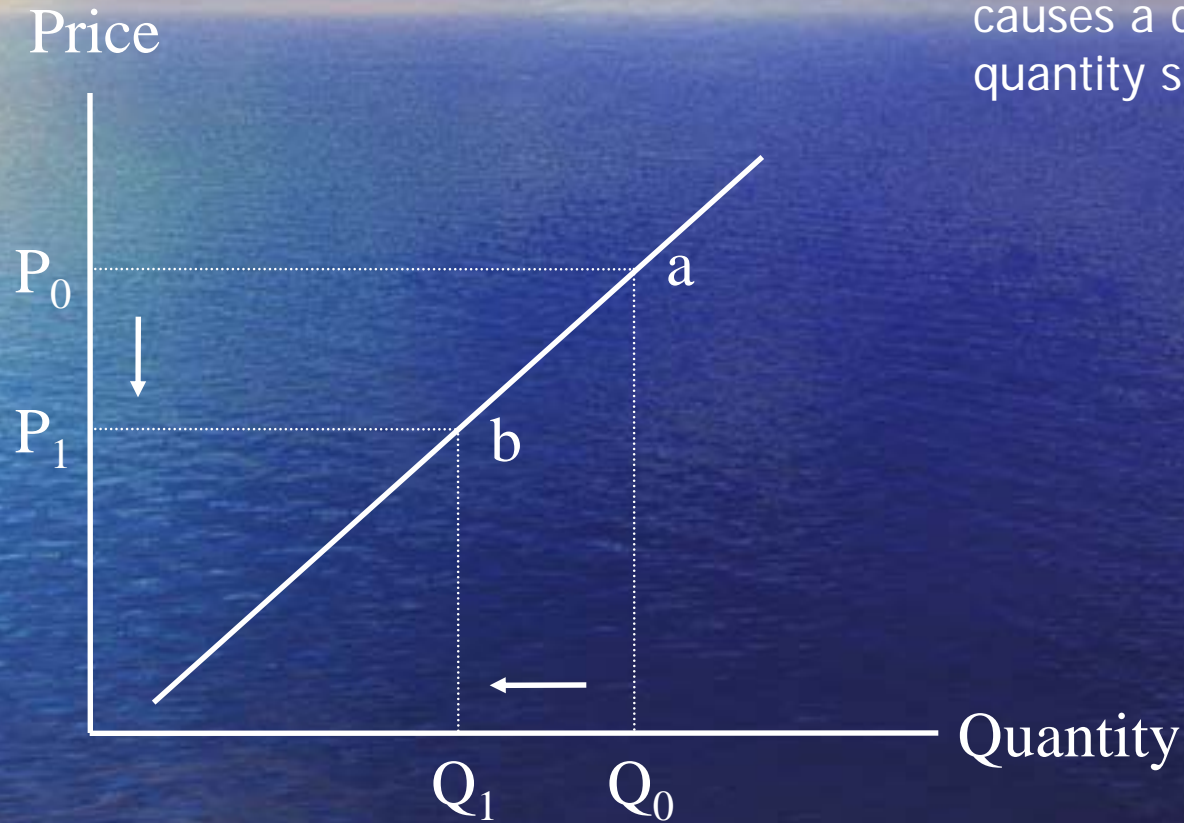
A decrease in price causes an increase in quantity demanded.

Changes in Quantity Supplied-Due to price

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A decrease in price causes a decrease in quantity supplied.

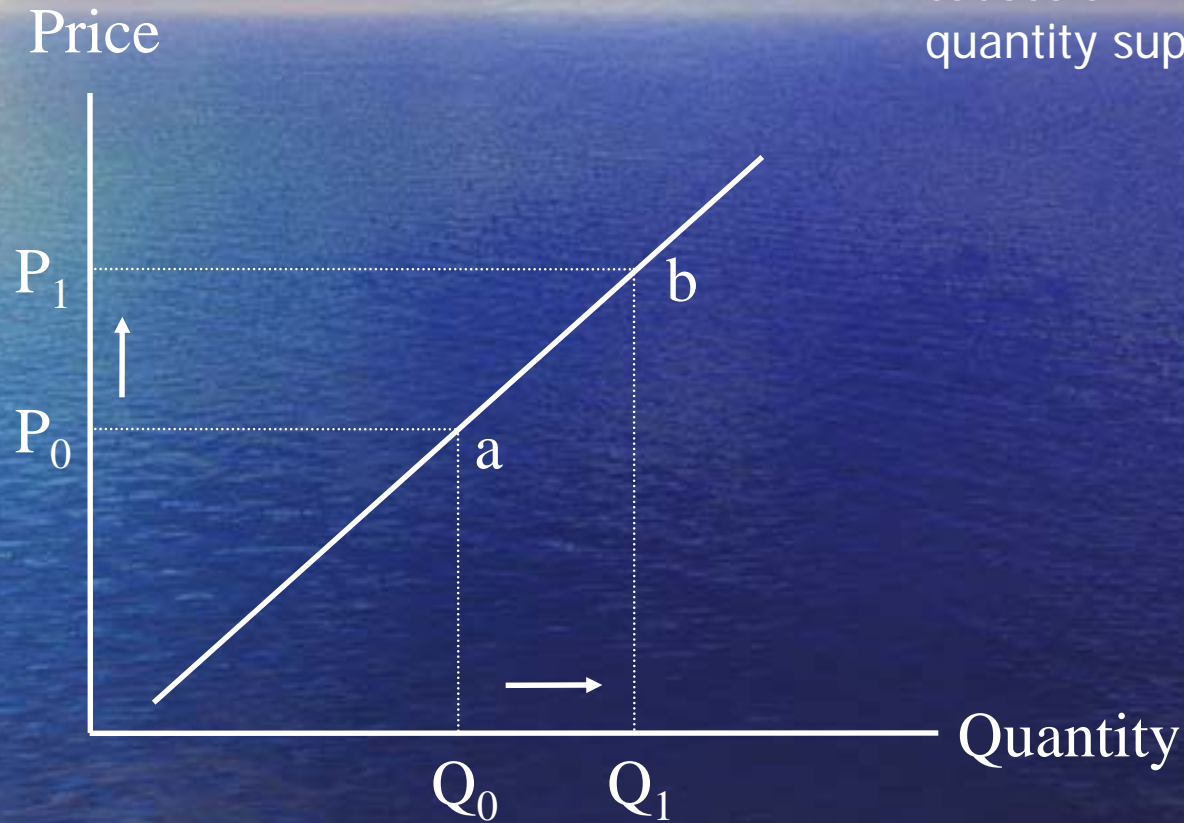


Changes in Quantity Supplied-Due to price

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An increase in price causes an increase in quantity supplied.



Changes in Income of consumers

Changes in Taste of the consumers

Changes in the market size (no. of buyers)

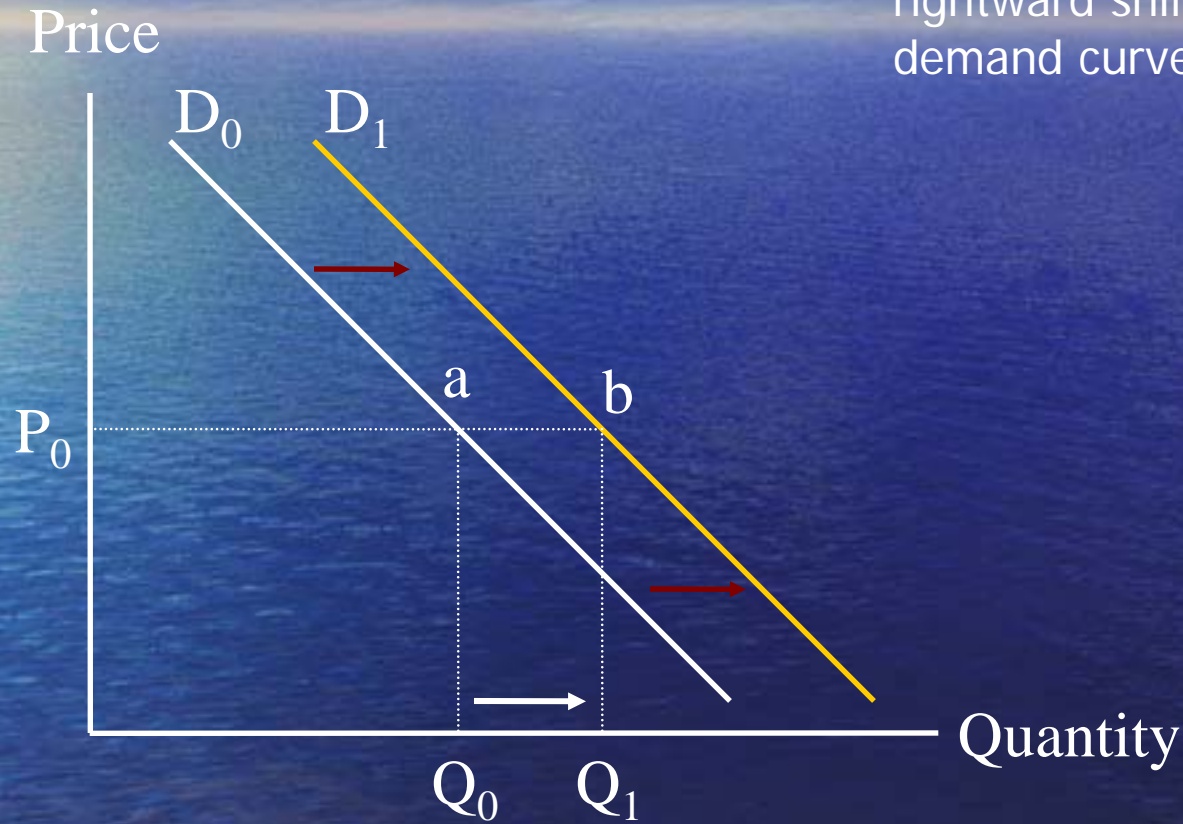
Changes in the price of related goods/services

Changes in Demand - Due to shift factors

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Rise in demand shows a rightward shift in the market demand curve.

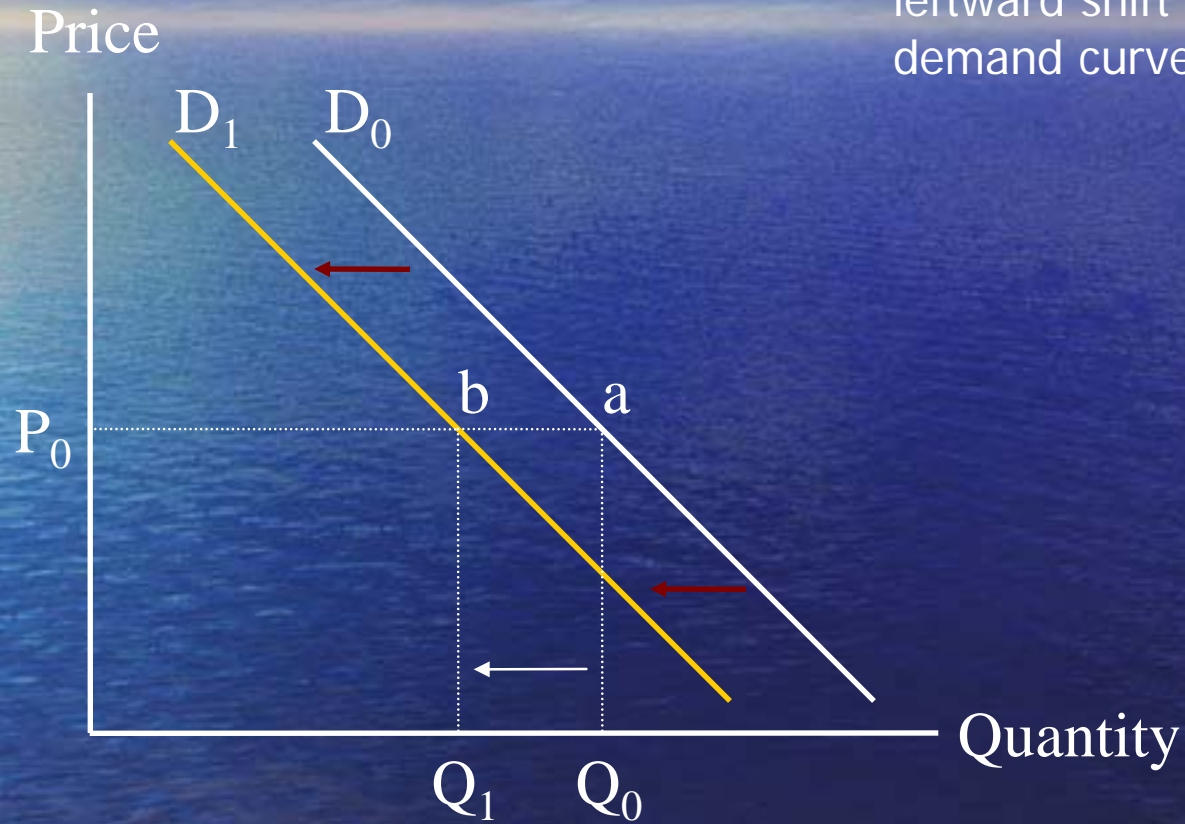


Changes in Demand - Due to shift factors

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Fall in demand shows a leftward shift in the market demand curve.



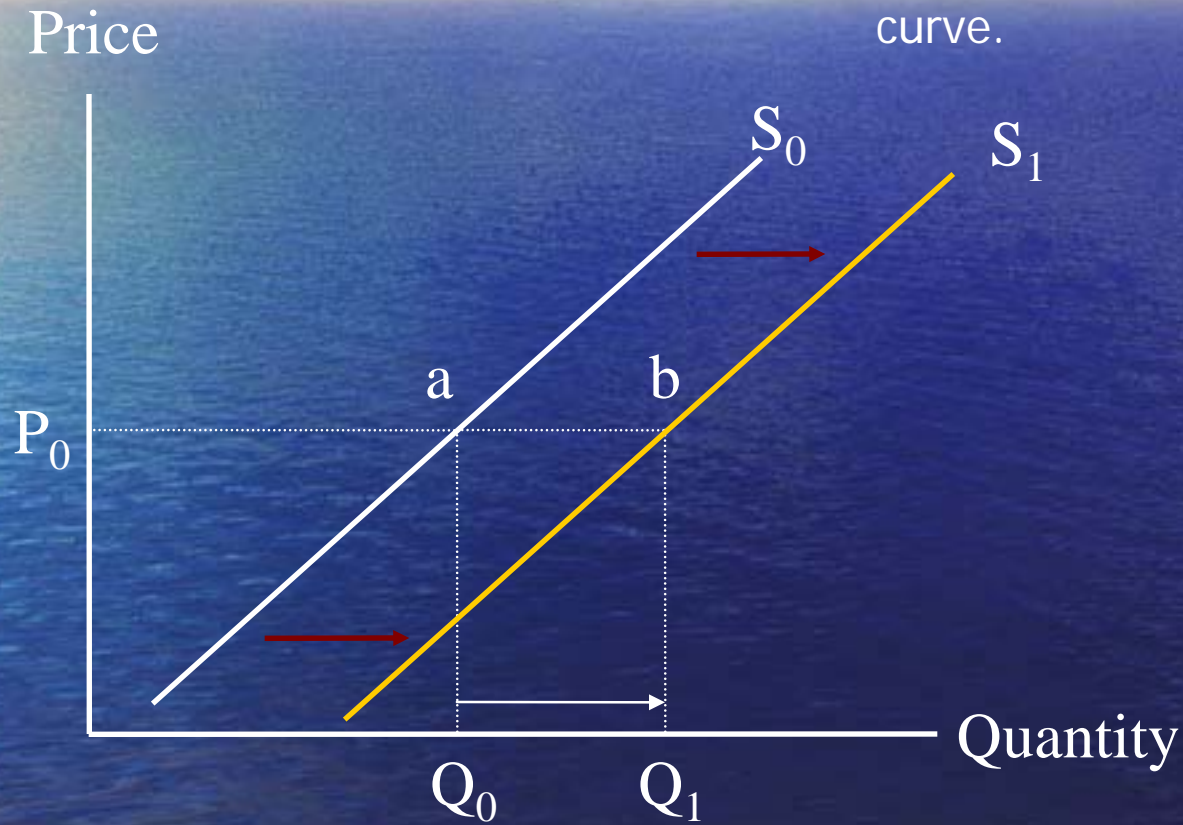
- Changes in state of technology
- Changes in the prices of factors input
- Changes in the market size (no. of sellers)
- Changes in the Government policy (incentives)

Changes in Supply - Due to shift factors

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Rise in supply shows a rightward shift in the supply curve.

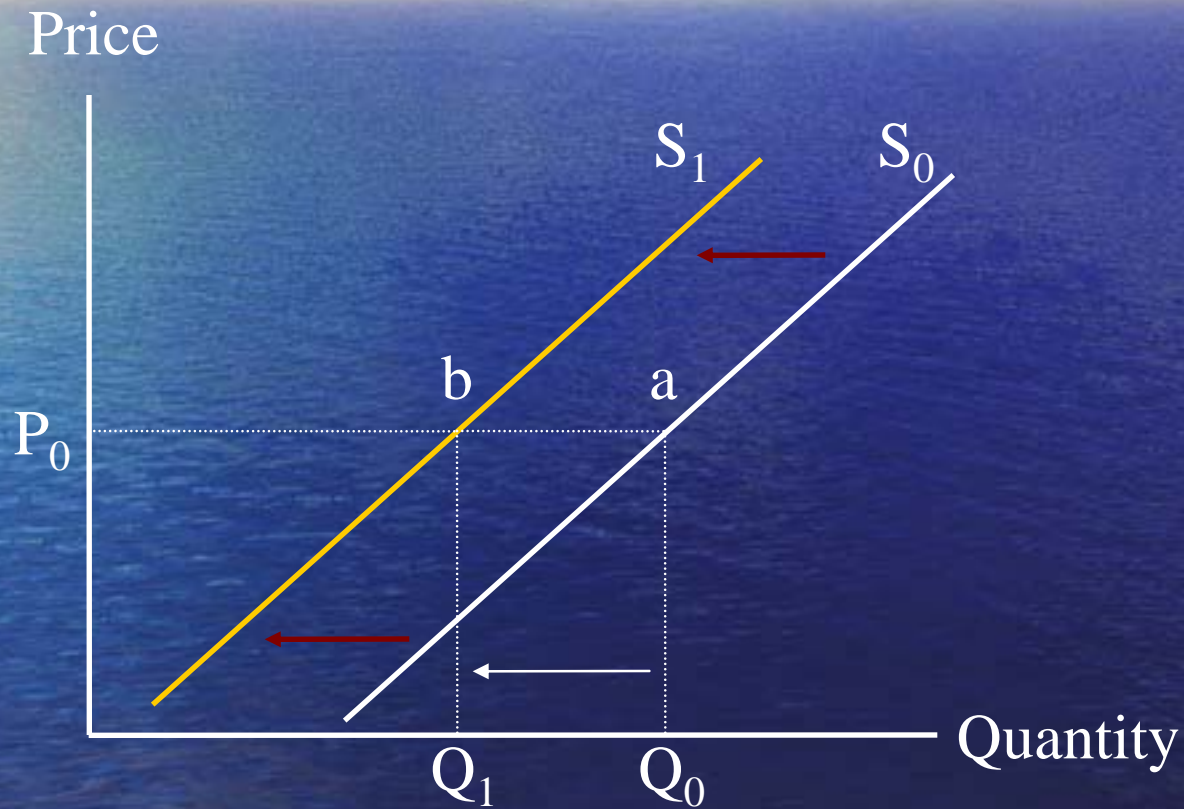


Changes in Supply - Due to shift factors

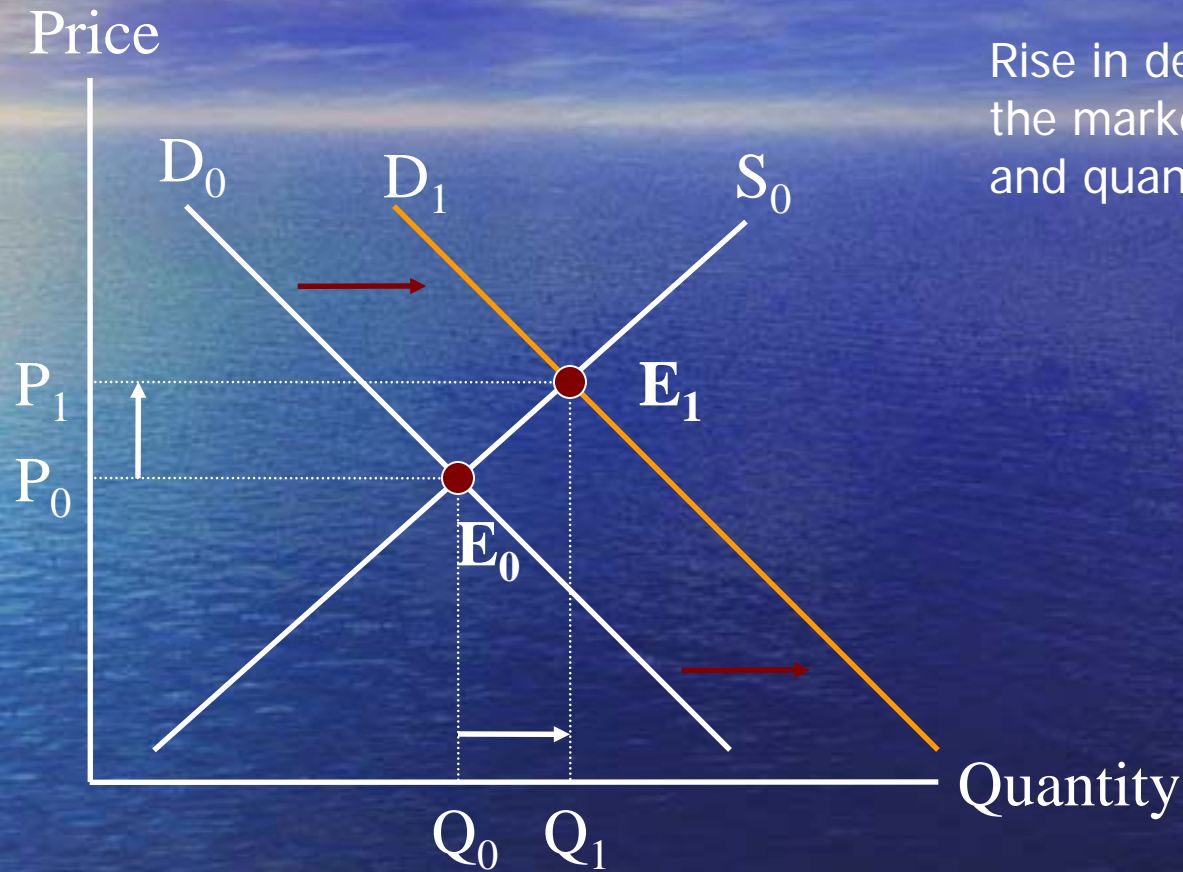
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Fall in supply shows a leftward shift in the supply curve.

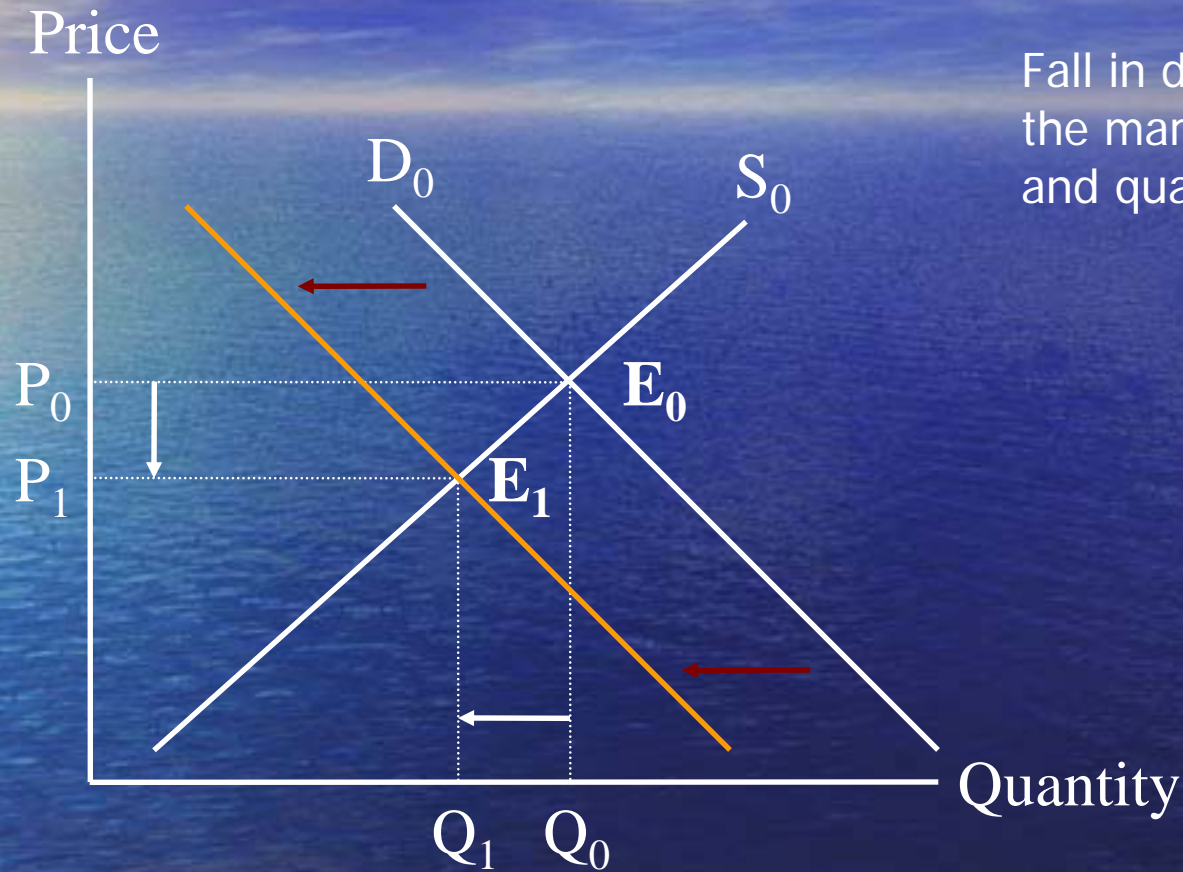


Effects of Changes in Demand on Market Equilibrium Point



Rise in demand will cause the market equilibrium price and quantity to increase.

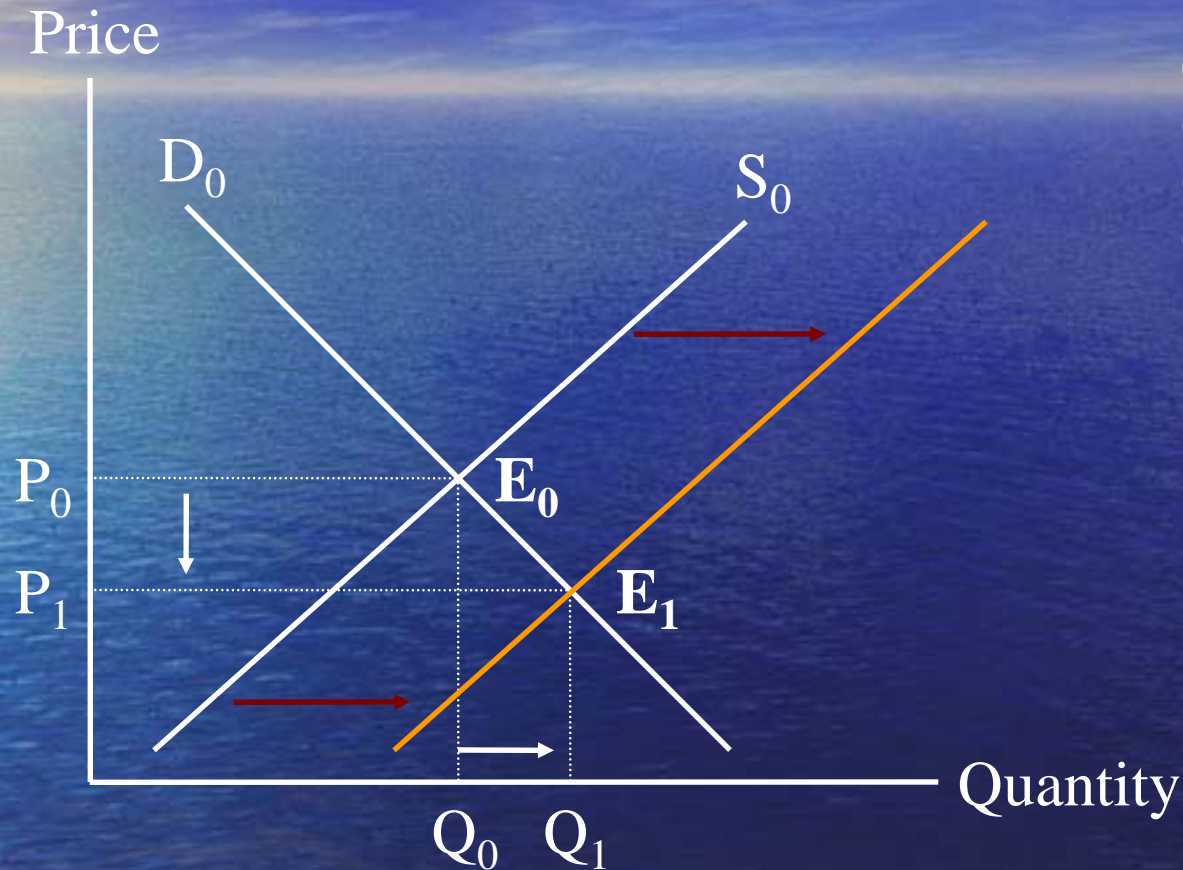
Effects of Changes in Demand on Market Equilibrium Point



Fall in demand will cause the market equilibrium price and quantity to decrease.

Effects of Changes in Supply on Market Equilibrium Point

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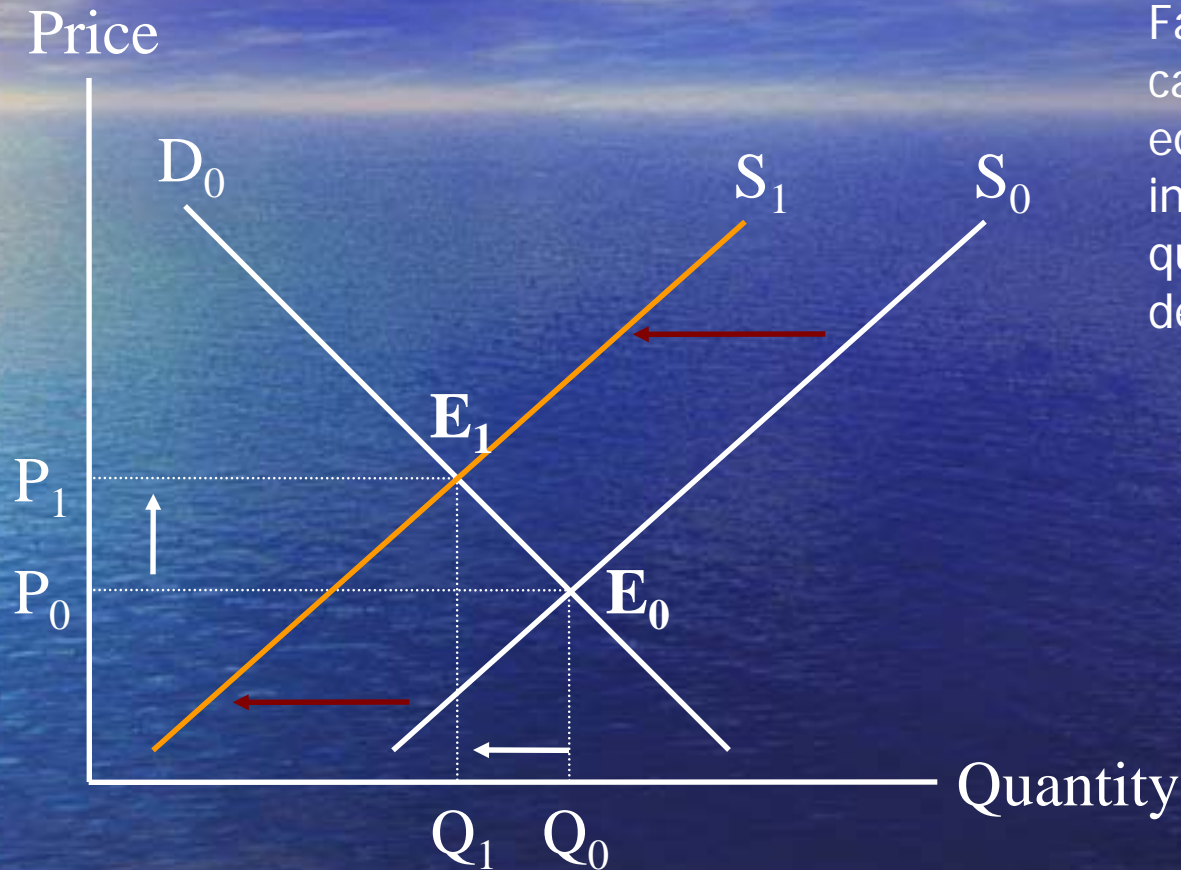


Rise in supply will cause the market equilibrium price to decrease and quantity to increase.

Effects of Changes in Supply on Market Equilibrium Point

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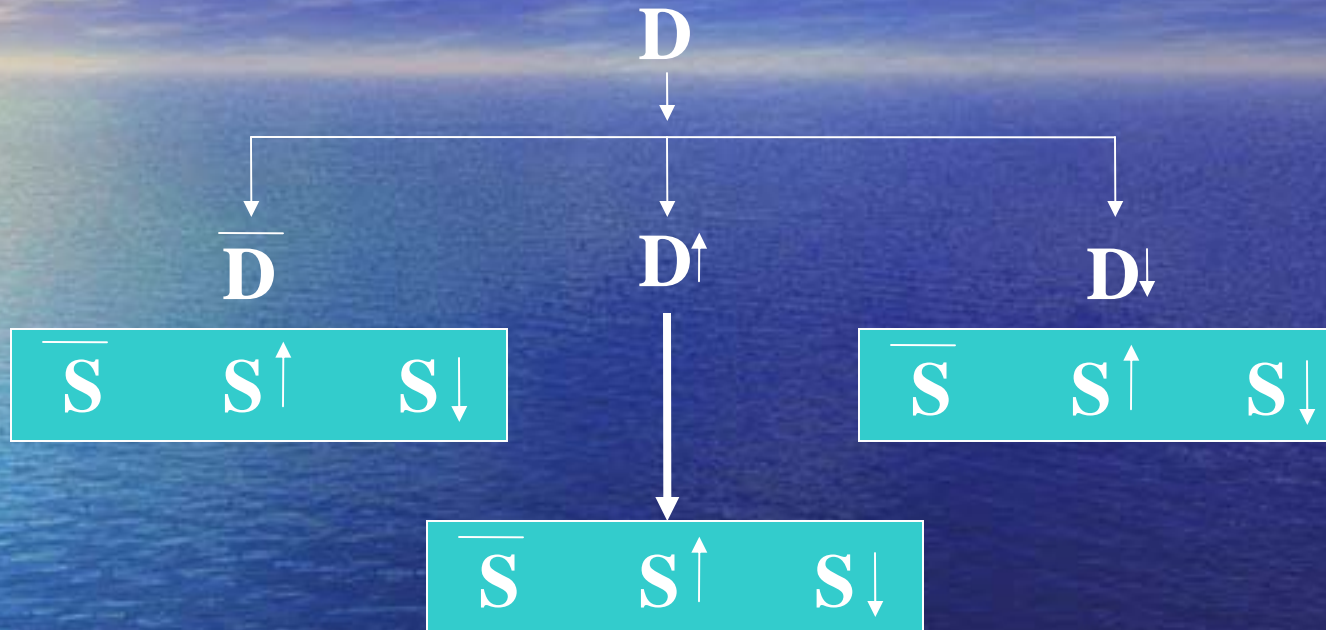


Fall in supply will cause the market equilibrium price to increase and quantity to decrease.

Effects of Simultaneous Changes in Demand and Supply

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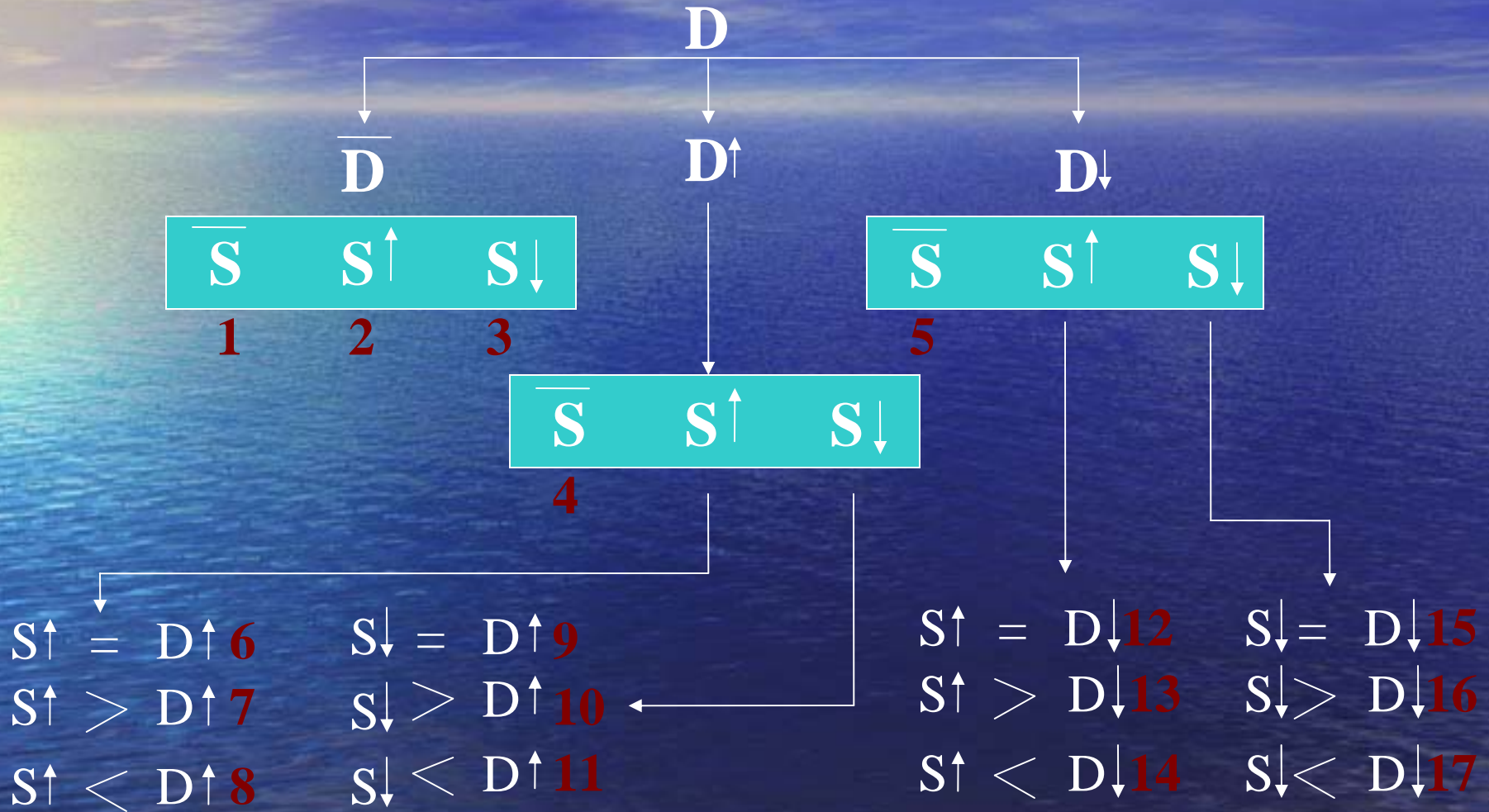
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Effects of Simultaneous Changes in Demand and Supply

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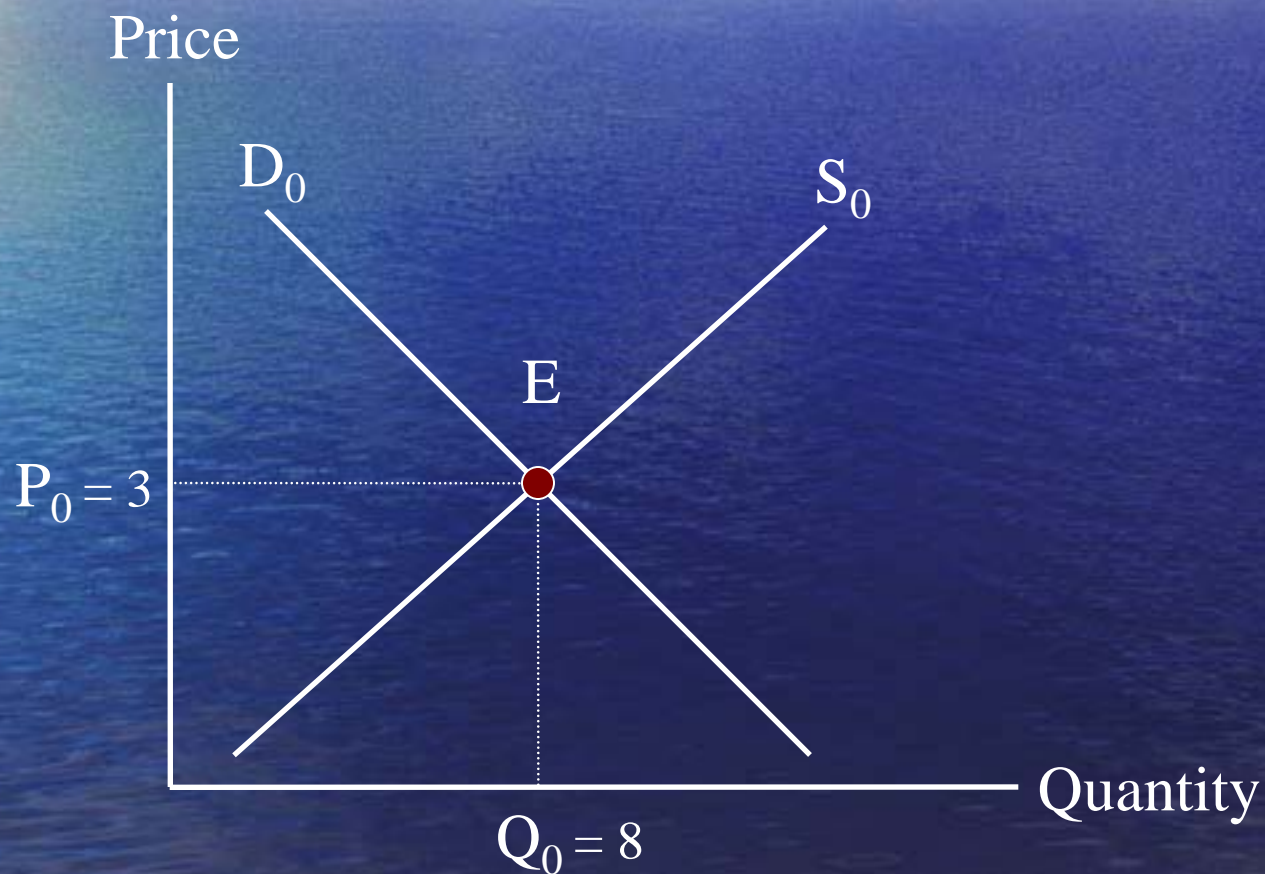


No Change in Demand and Supply

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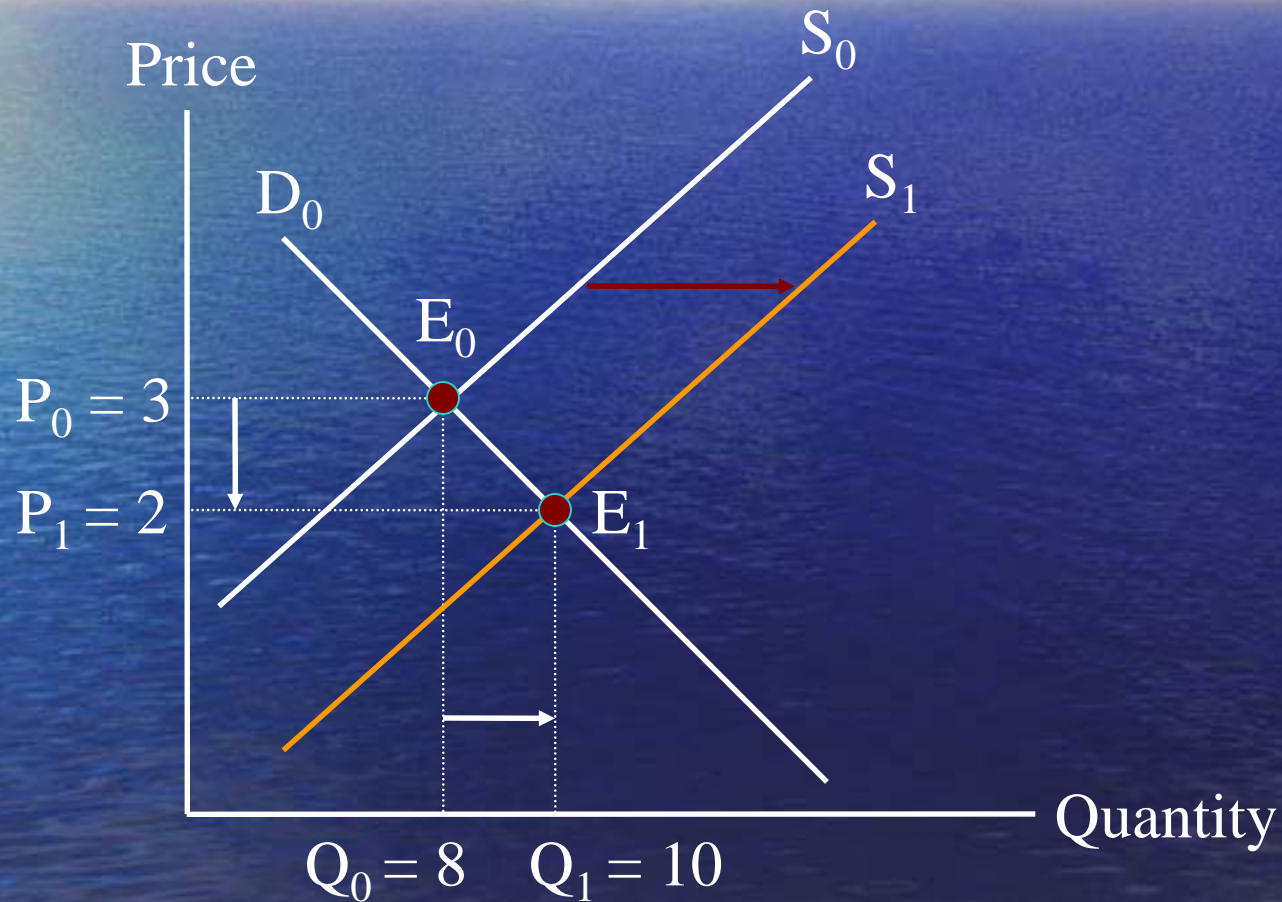


No Change in Demand and Rise in Supply

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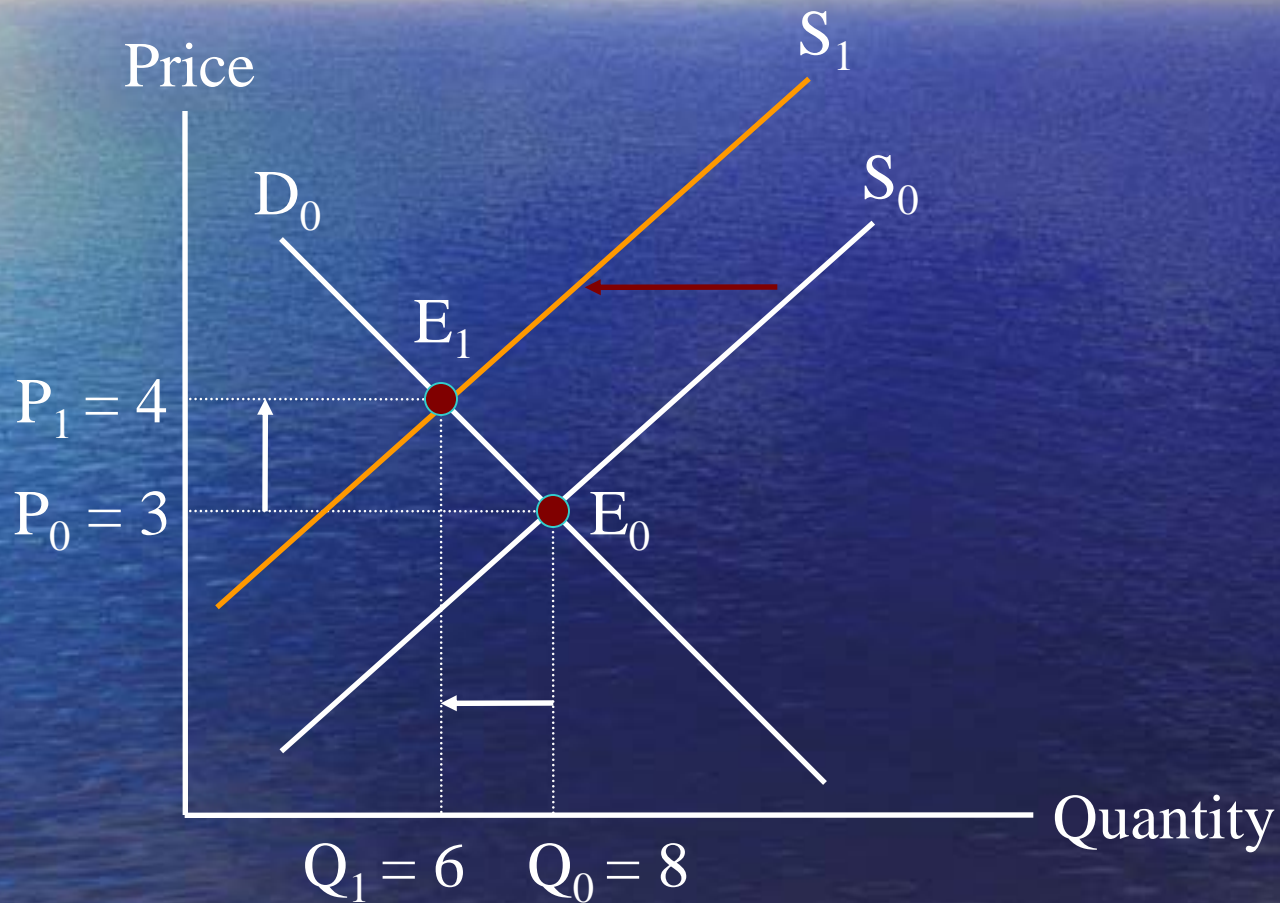


No Change in Demand and Fall in Supply

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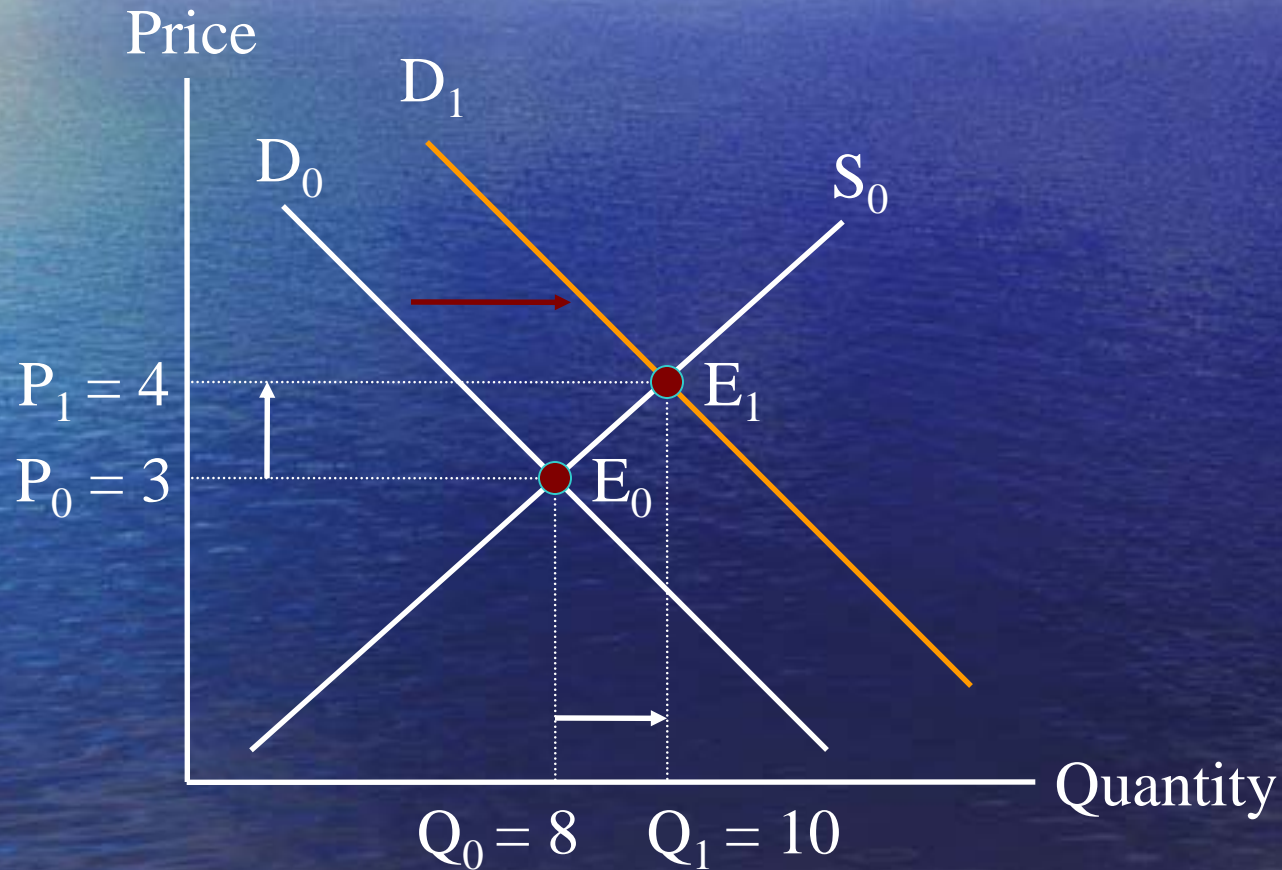


No Change in Supply and Rise in Demand

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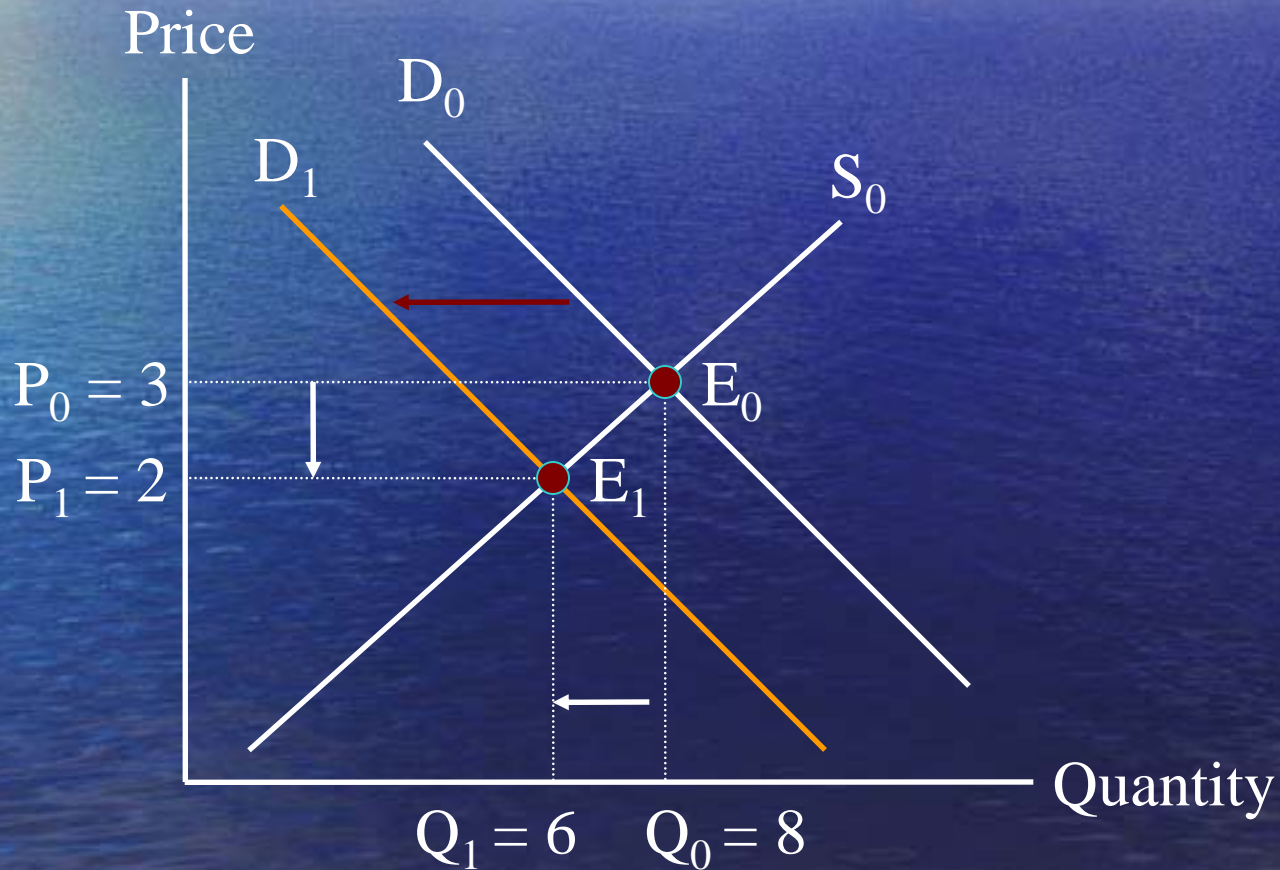


No Change in Supply and Fall in Demand

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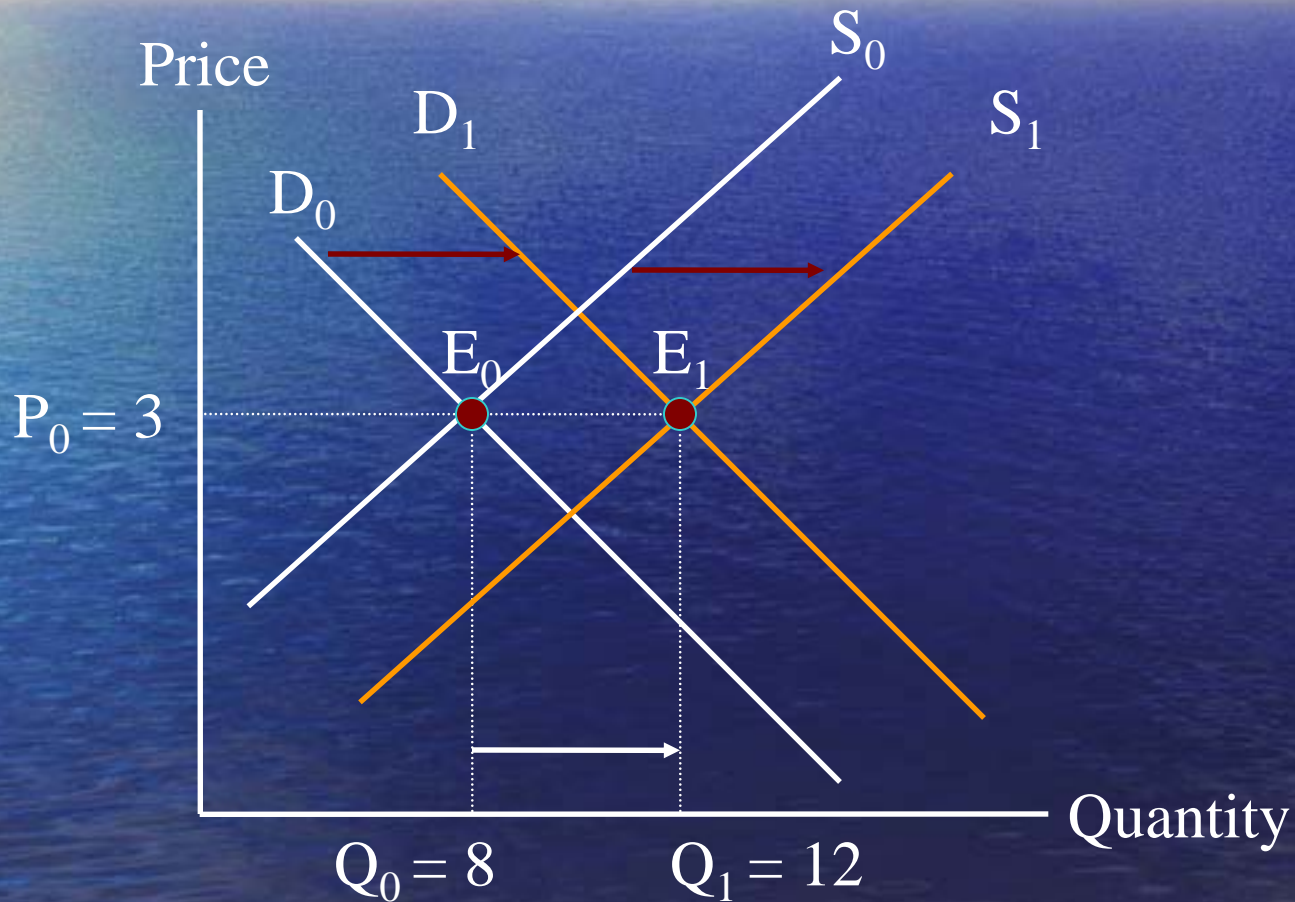


Rise in Demand Is Equal to Rise In Supply

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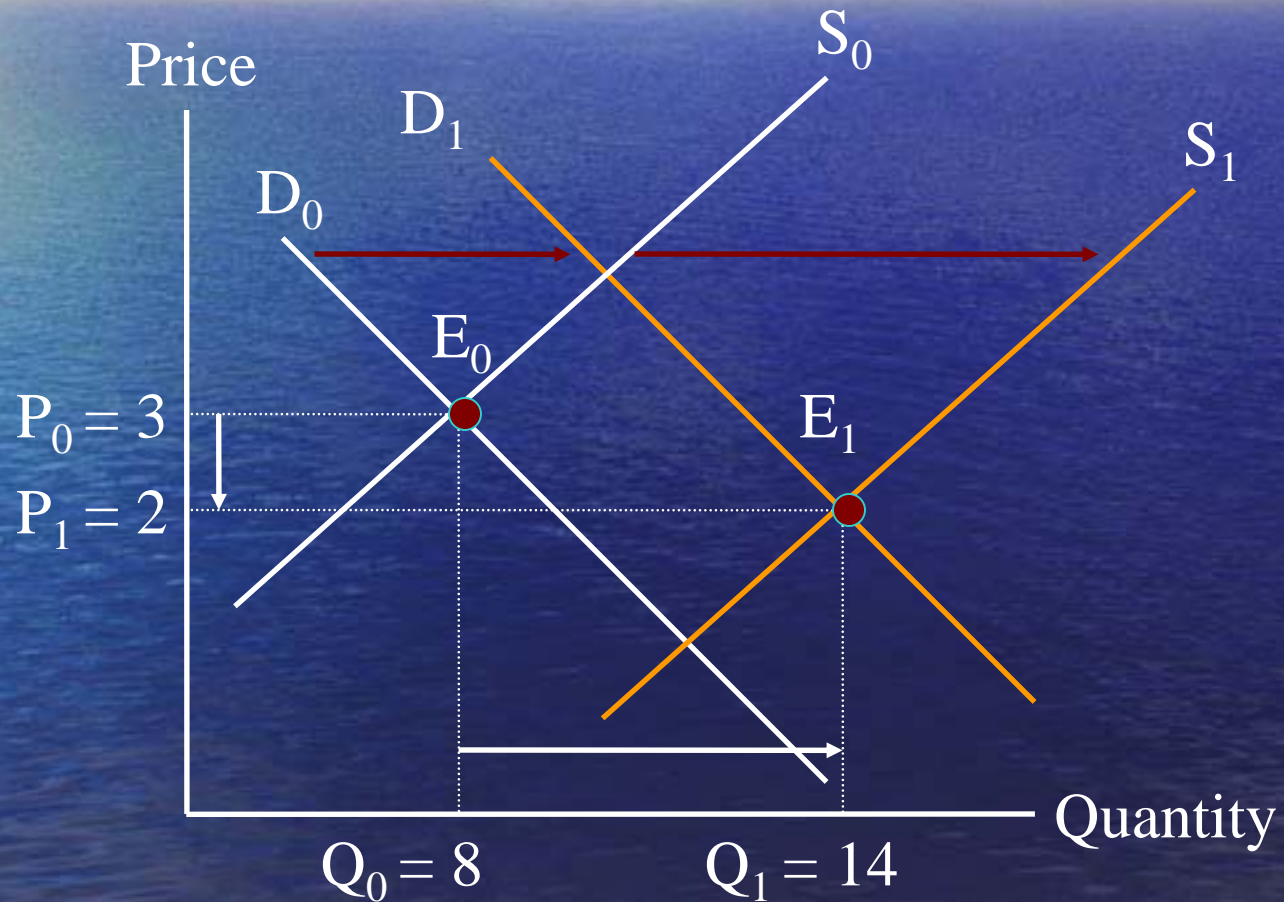


Rise in Demand Is Less Than Rise In Supply

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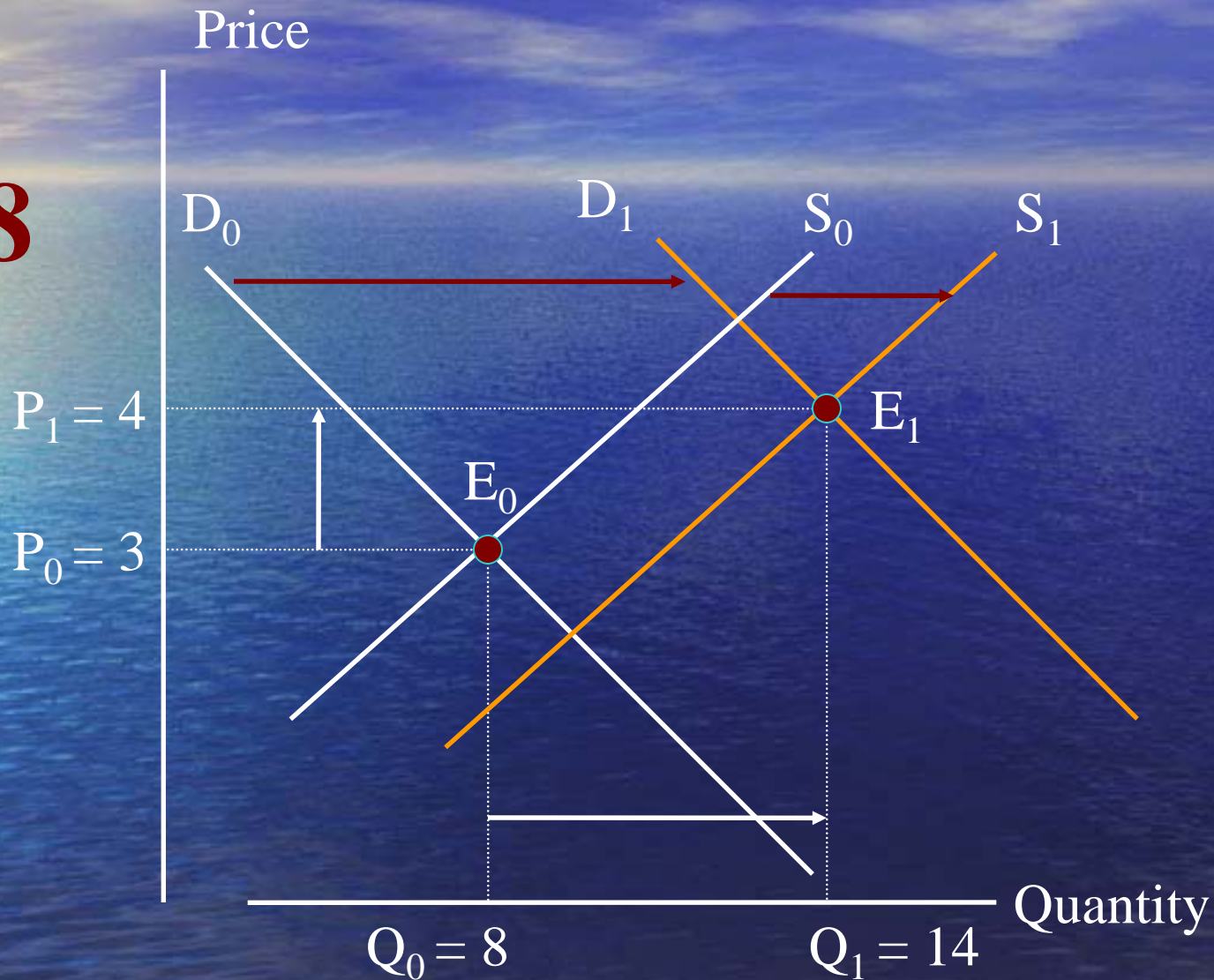


Rise in Demand Is More Than Rise In Supply

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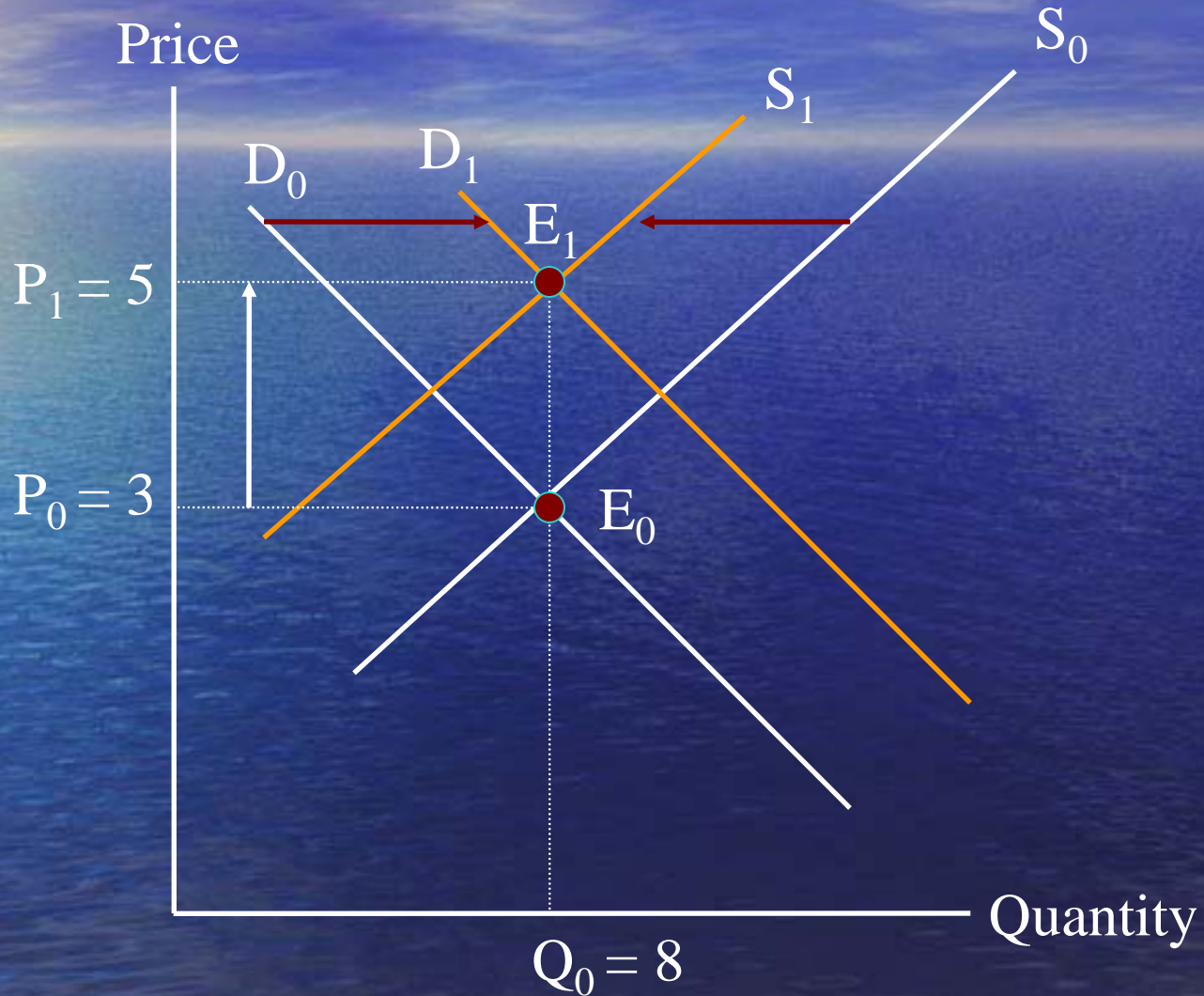


Rise in Demand Is Equal To Fall In Supply

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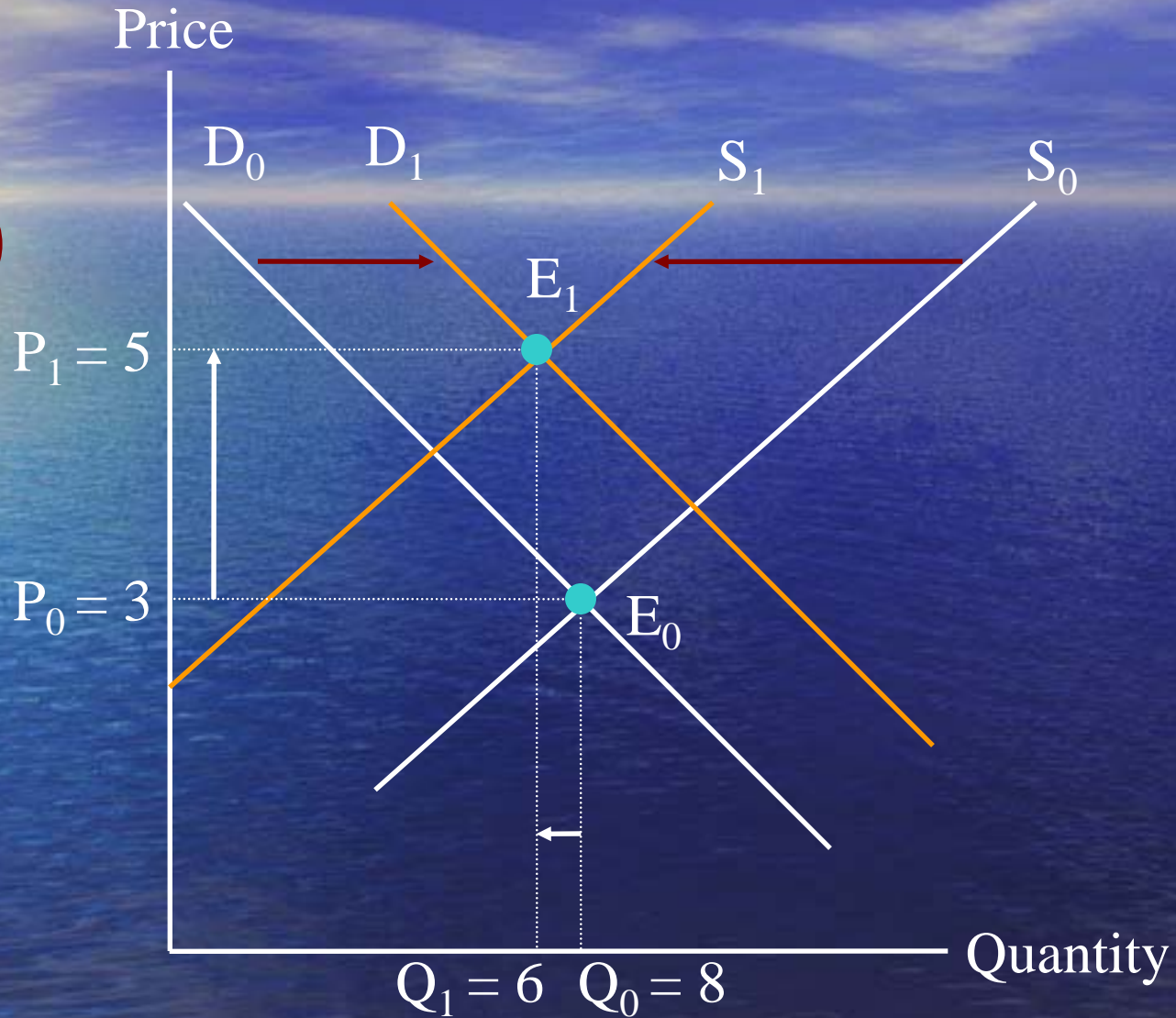


Rise in Demand Is Less Than Fall In Supply

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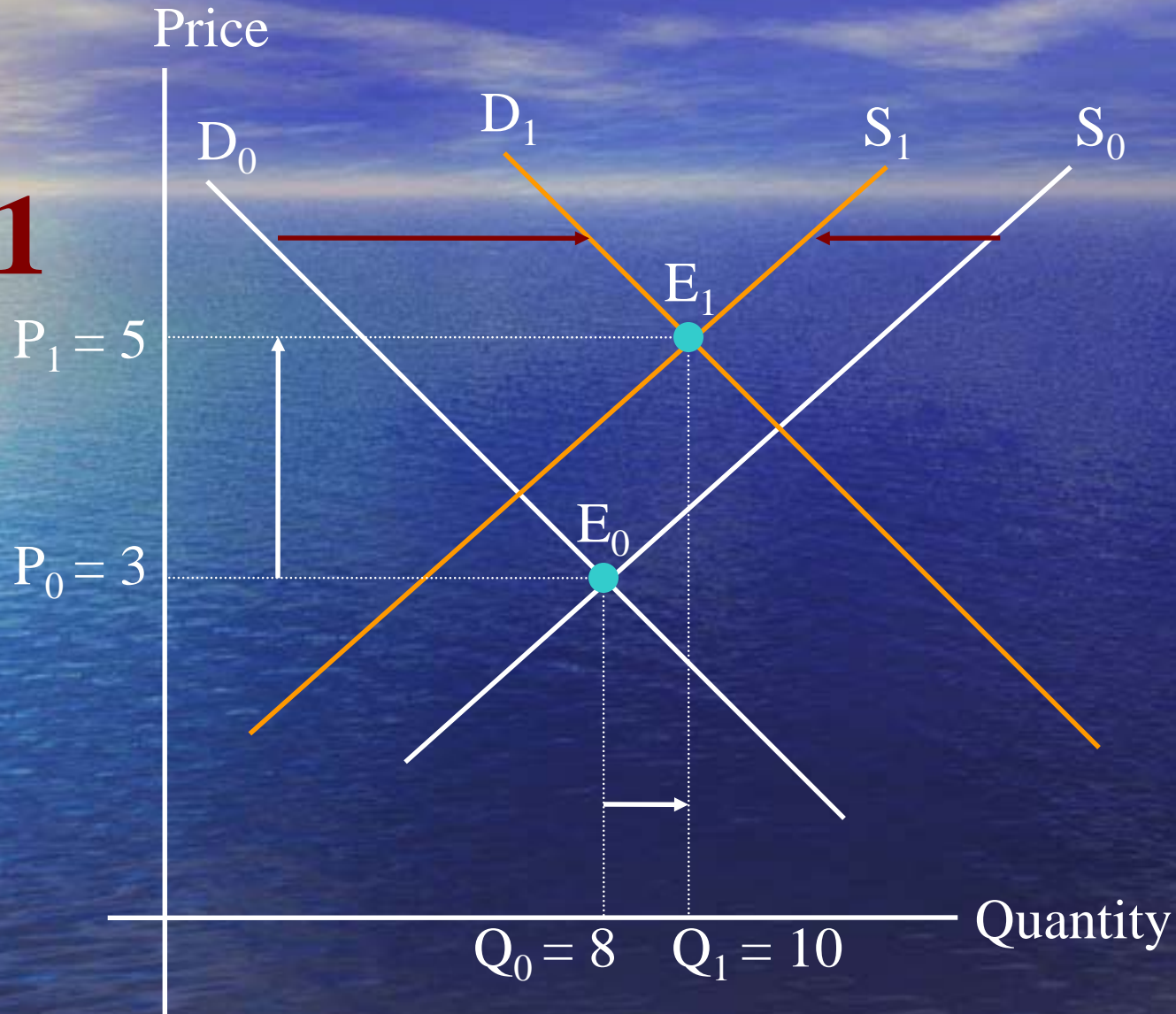


Rise In Demand Is More Than Fall In Supply

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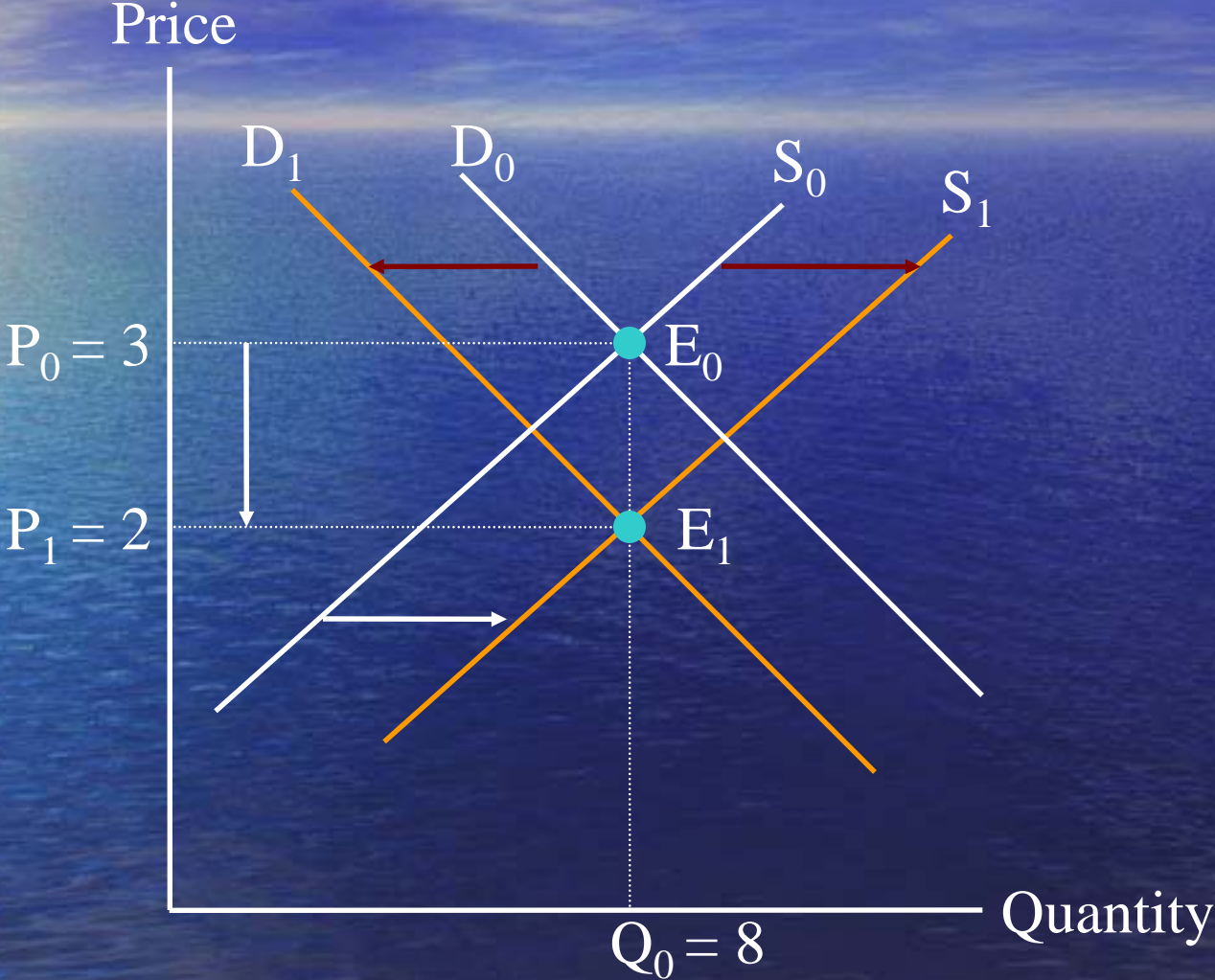
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Fall In Demand Is Equal to Rise In Supply

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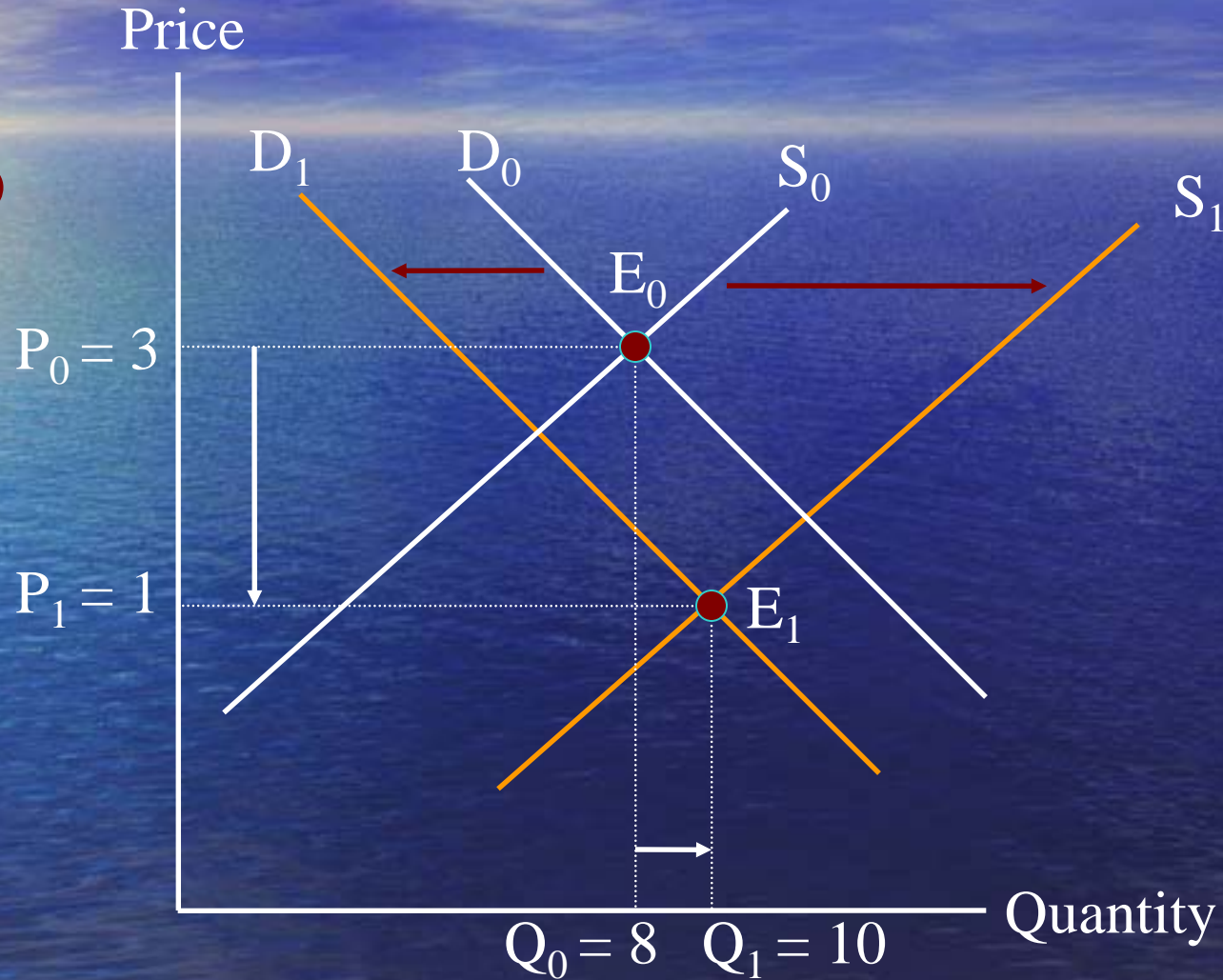


Fall In Demand Is Less Than Rise In Supply

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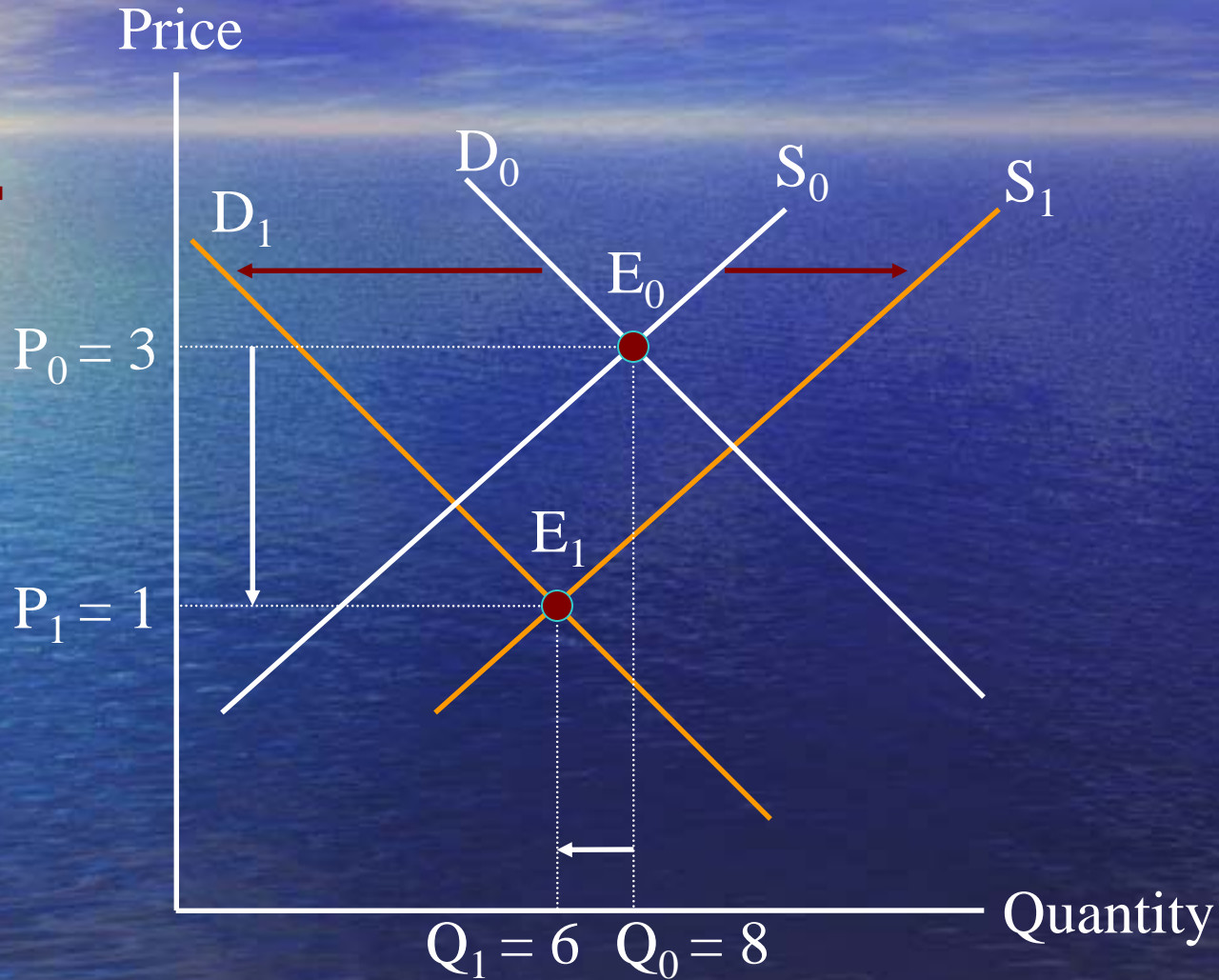
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Fall In Demand Is More Than Rise In Supply

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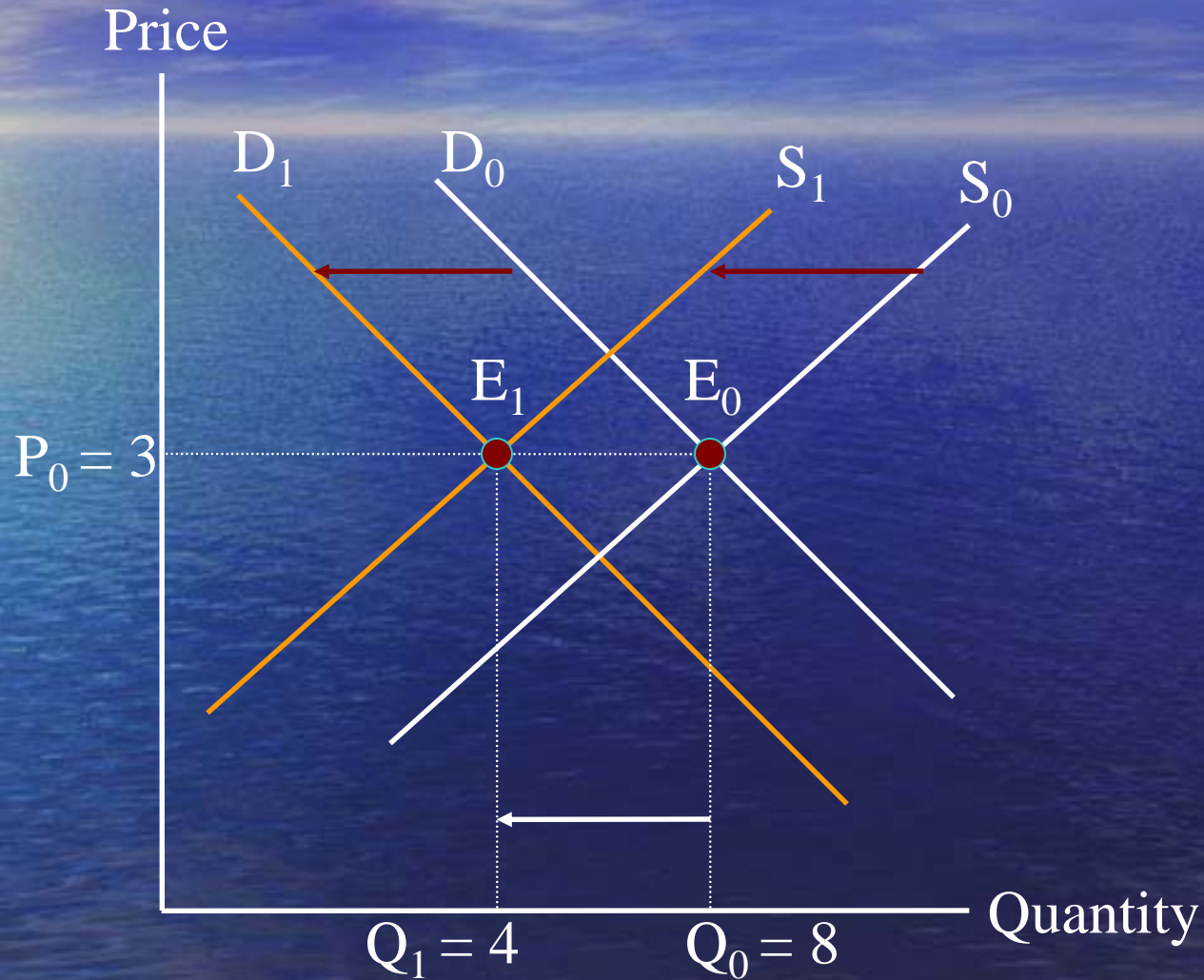


Fall In Demand Is Equal To Fall In Supply

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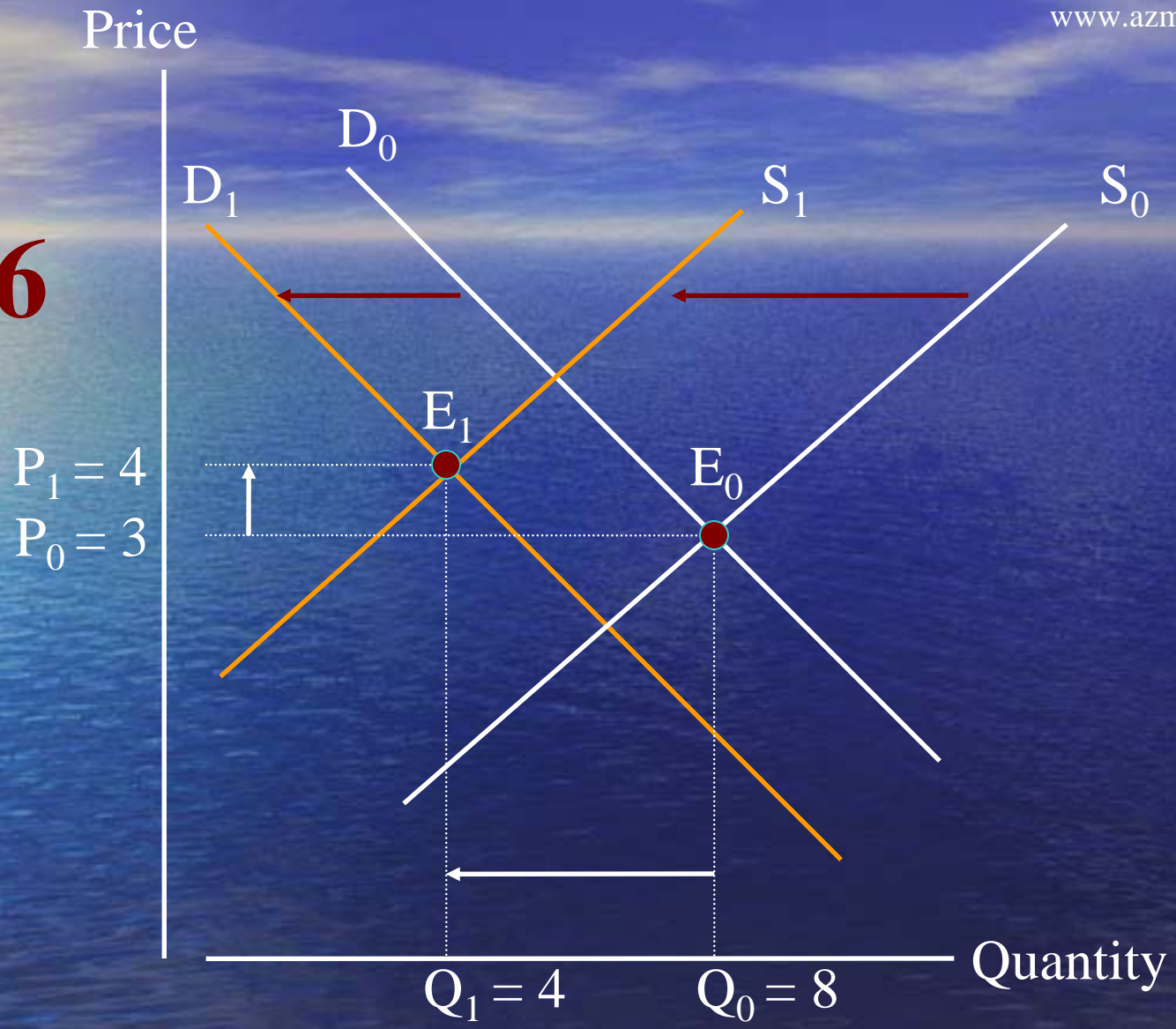
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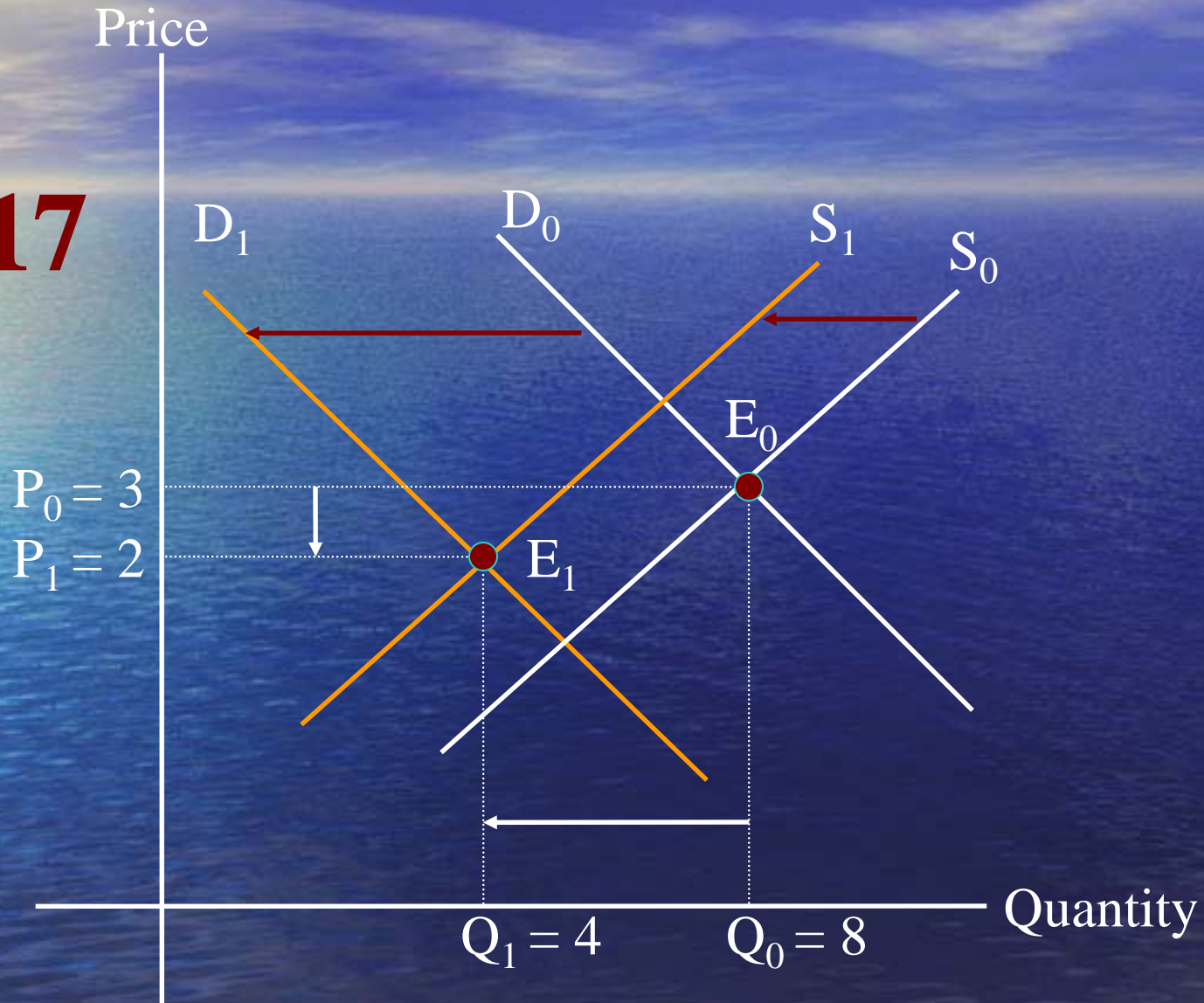
Fall In Demand Is Less Than Fall In Supply

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Fall In Demand Is More Than Fall In Supply

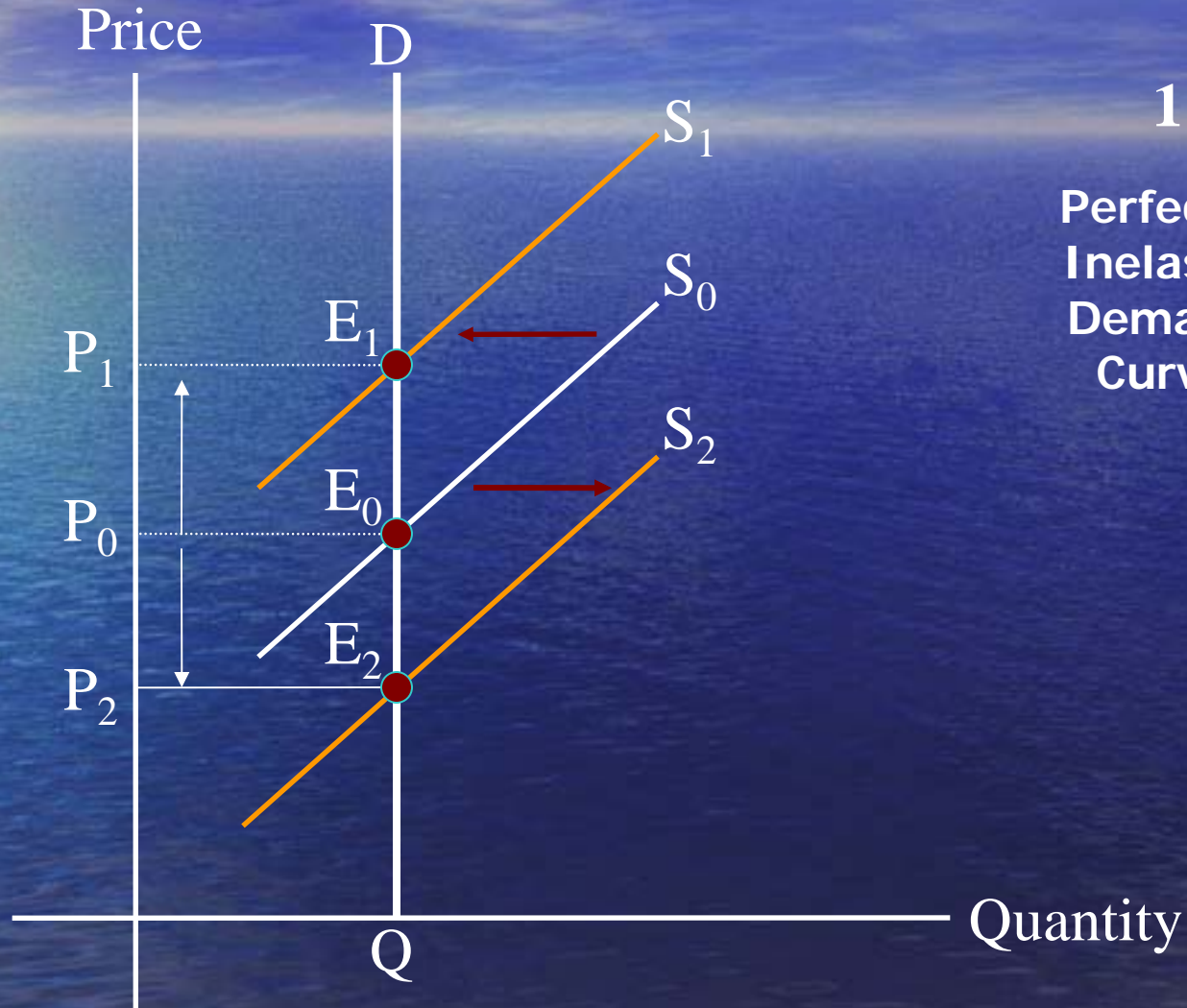
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Perfectly Inelastic Demand Curve And Changes In Supply

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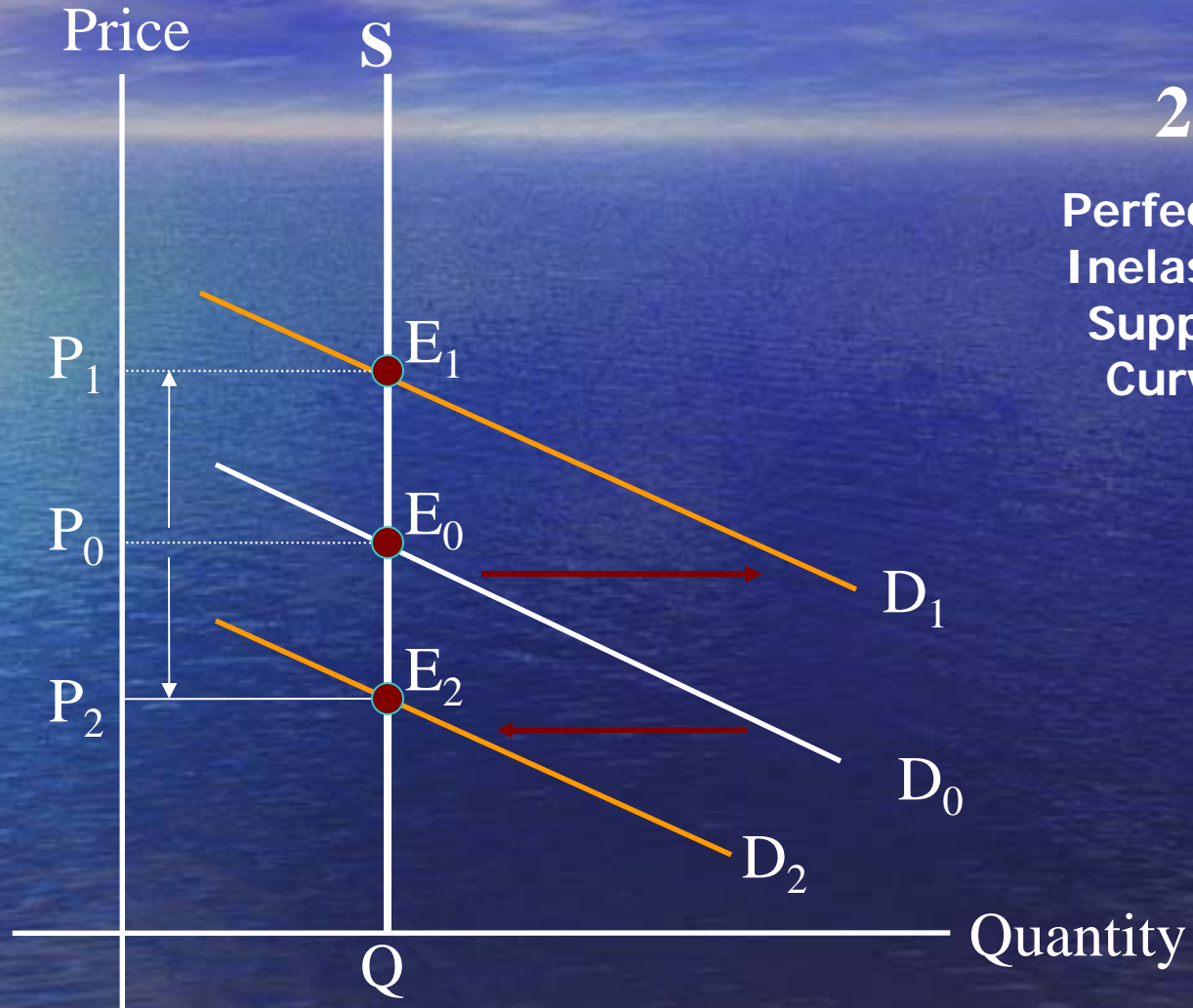
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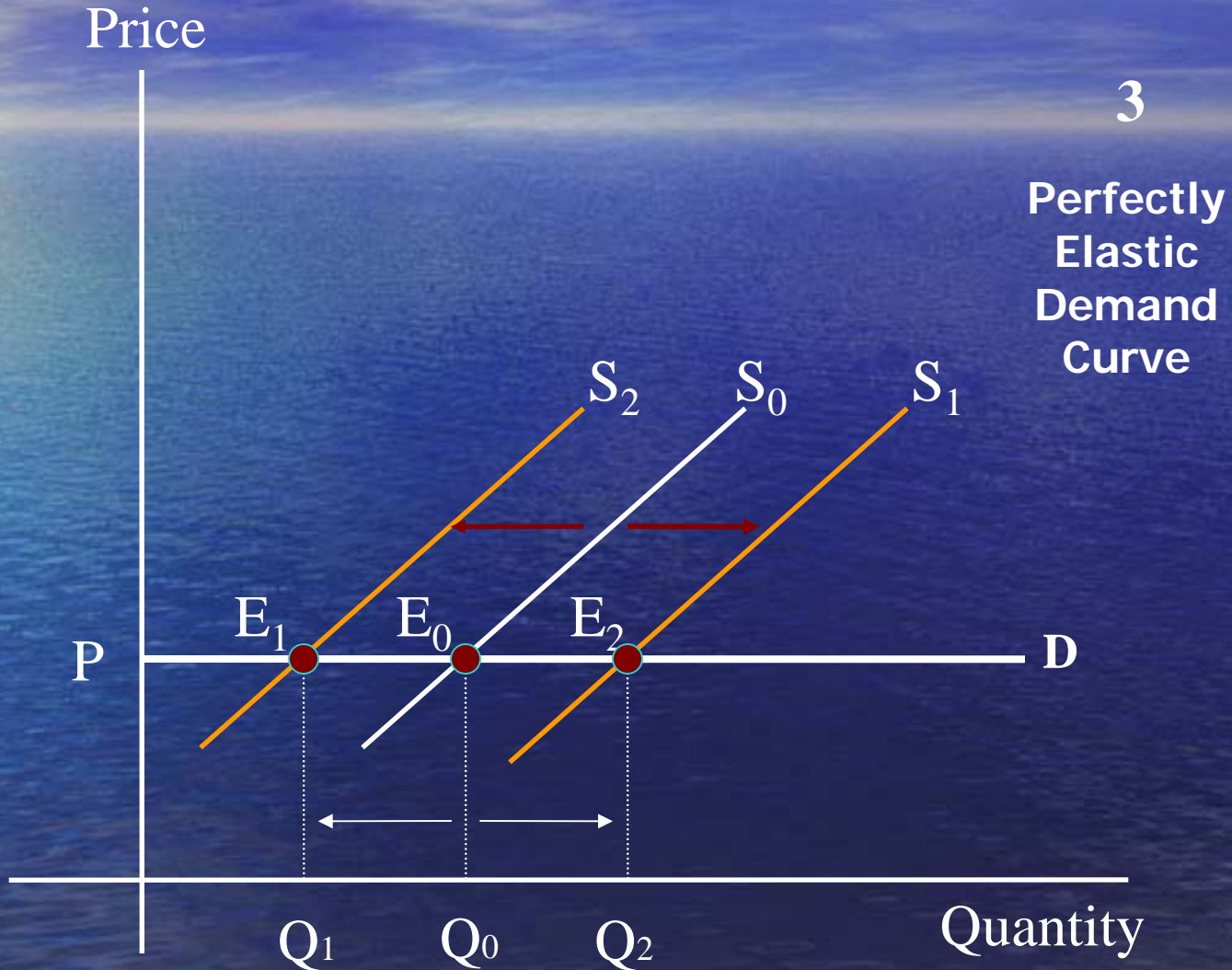
Perfectly
Inelastic
Demand
Curve

Perfectly Inelastic Supply Curve And Changes In Demand



2
Perfectly
Inelastic
Supply
Curve

Perfectly Elastic Demand Curve And Changes In Supply



Perfectly Elastic Supply Curve And Changes In Demand

