**Supply and Demand**

The terms supply and demand refer to the behavior of people as they interact with one another in markets. A market is defined as an institution or mechanism which brings together buyers – “demanders’ and sellers – “suppliers”.

Demand is the amount of the good that buyers are willing and able to purchase. What factors determine the demand for any good? They are as following: Price. The quantity demanded falls as the price rises and rises as the price falls, so the quantity is negatively related to the price. The relationship between price and quantity demanded is true for most goods in the economy and, in fact, is so pervasive that economists call it the law of demand: other things equal (ceteris paribus in Latin), when the price of a good rises, the quantity demanded of the good falls.

Income. A lower income means that you have less to spend in total so you would have to spend less on some – and probably most – goods. If the demand for a good falls when income falls, the good is called a normal good.

Not all goods are normal goods. If the demand for a good rises when income falls, the good is called an inferior good. An example of an inferior good might be bus rides. As your income falls, you are less likely to buy a car or take a cab, and more likely to ride the bus.

Prices of Related Goods. Suppose that the price of frozen yogurt falls. The law of demand says that you will buy more frozen yogurt. At the same time you will probably buy less ice-cream. Ice-cream and frozen yogurt are substitutes, that is pairs of goods that are used in place of each other.

When a fall in one price of one good raises the demand for another good, the two goods are called complements. Complements are often pairs of goods that are used together, such as gasoline and automobiles, computers and software.

Tastes. The most determinant of your demand is your tastes. If you like ice-cream, you buy more of it.

Expectations. Your expectations about the future may affect your demand for a good or service today too.

We now turn to supply that is the amount that sellers are willing and able to sell. What determines the quantity an individual supplies? These are: Price Because the quantity supplied rises as the price rises and falls as the price falls, we say that the quantity supplied is positively related to the price of the good. This relationship between price and quantity supplied is called the law of supply: Other things equal, when the price of a good rises, the quantity supplied of the good also rises.

Input Prices. The supply of a good is negatively related to the price of the inputs used to make the good.

Technology. By reducing firms’ costs, the advance in technology raises the supply of a good.

Expectations. The amount of goods you supply today may depend on your expectations of the future. For example, if you expect the price of goods to rise in the future, you will put some of your current production into storage and supply less to the market today.