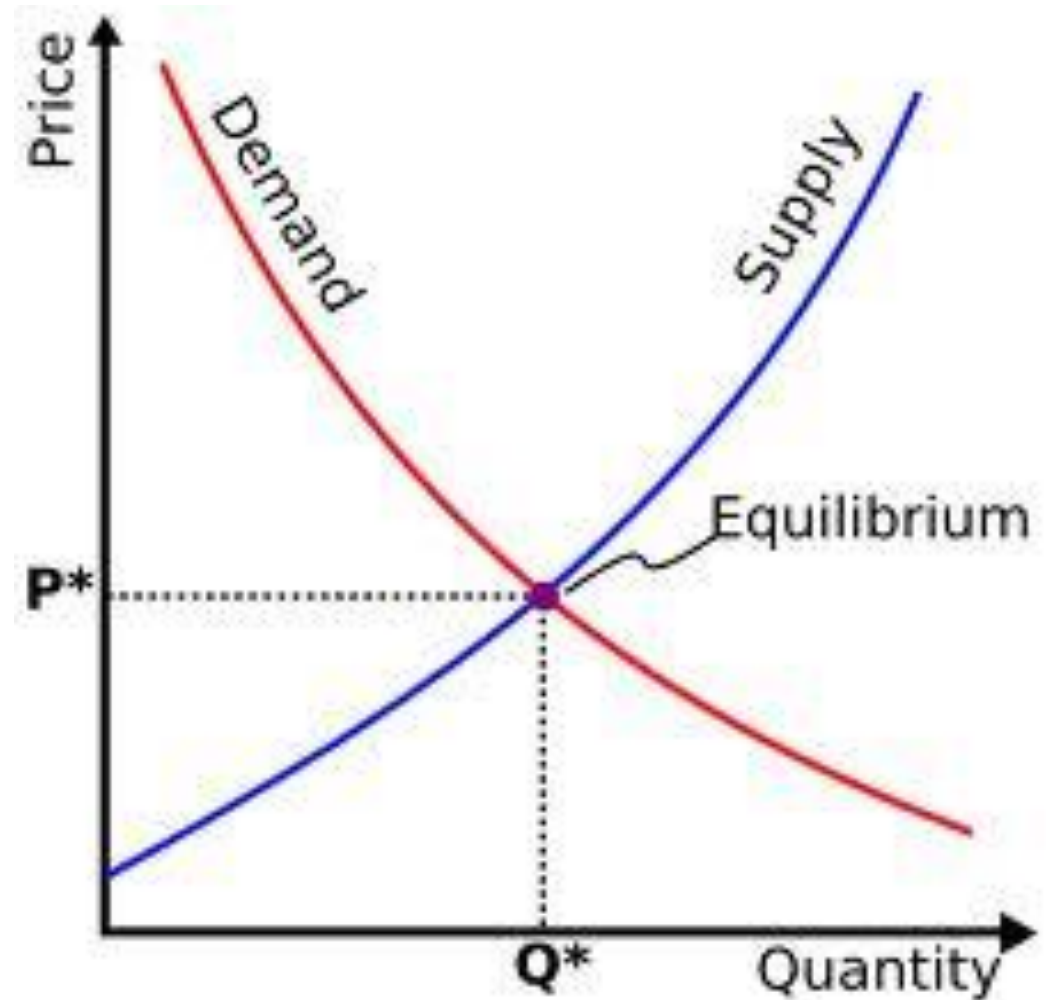


Combining Supply and Demand



Rush
January 2015

Supply and demand schedule

Price of slice of pizza	Quantity demanded	Quantity supplied	Result
\$0.50	300	100	Shortage from excess demand
\$1.00	250	150	Shortage from excess demand
\$1.50	200	200	Equilibrium
\$2.00	150	250	Surplus from excess supply
\$2.50	100	300	Surplus from excess supply
\$3.00	50	350	Surplus from excess supply

Let's draw the curves

- Today, just draw a graph combining general supply and demand curves.

Label your axes with Price and Quantity, but don't put any numbers on.

Label the curves with D and S.

Vocabulary: Equilibrium

- Definition: The point at which quantity demanded and quantity supplied are equal.

In your notes, put an X at equilibrium.

Vocabulary: Disequilibrium

- Definition: Any price or quantity not at equilibrium; when quantity supplied is not equal to quantity demanded in a market.

So where is disequilibrium?

Vocabulary: Excess demand

- Definition: When quantity demanded is more than quantity supplied.

In your notes, put an ED somewhere where there is excess demand.

Vocabulary: Excess supply

- Definition: When quantity supplied is more than quantity demanded.

In your notes, put an ES somewhere where there is excess supply.

Vocabulary: Market intervention

- Definition:
The government steps in to control prices.
- Example:
Rent control or minimum wage.



Vocabulary: Price ceiling

- Definition:
A maximum price that can be legally charged for a good or service.
- Example:
Rent control.



Vocabulary: Price ceiling

- But is rent control a completely good thing?



Vocabulary: Price ceiling

- So how would we draw a price ceiling on our supply and demand graph?

Does a price ceiling result in excess supply or excess demand?

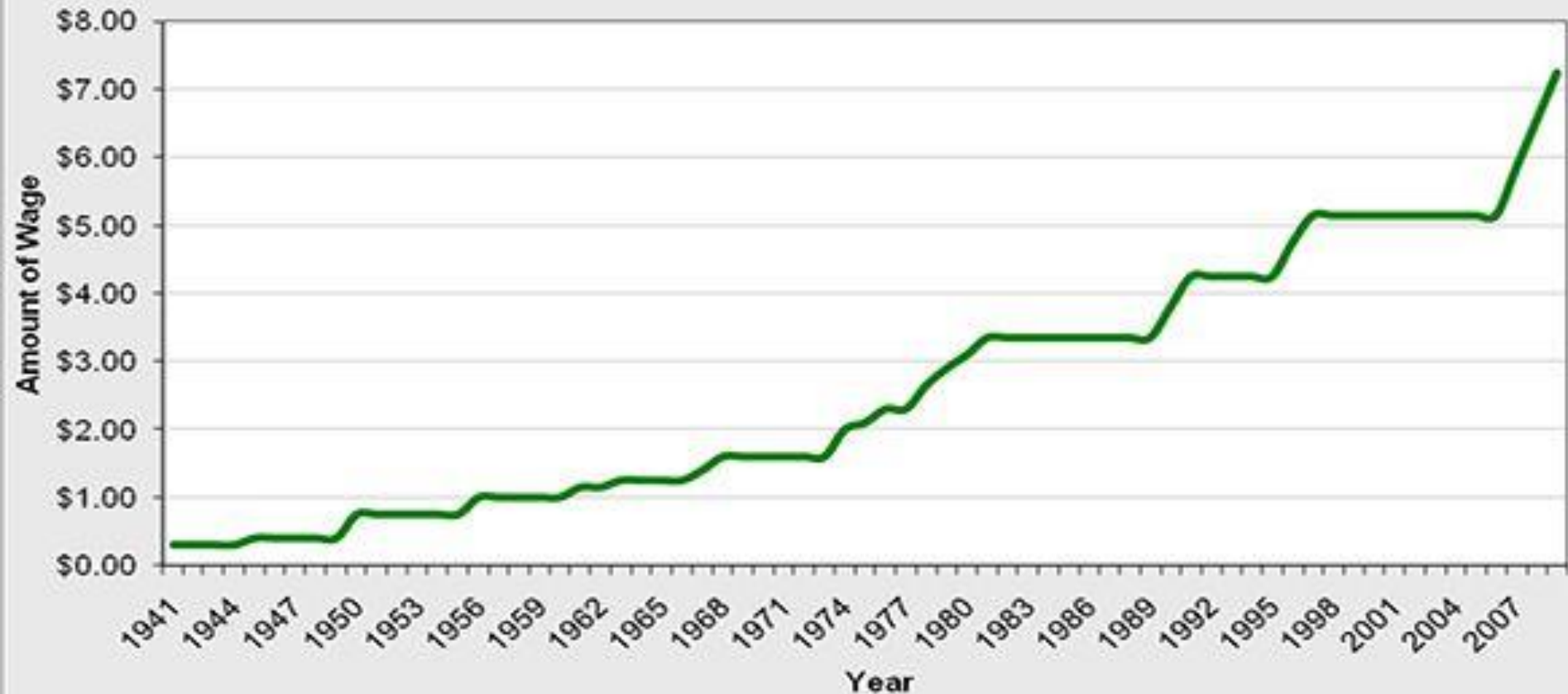
Vocabulary: Price floor

- Definition: The minimum price for a good or service.
- Example: Minimum wage.

The government has increased the minimum wage over time to try to keep pace with inflation.

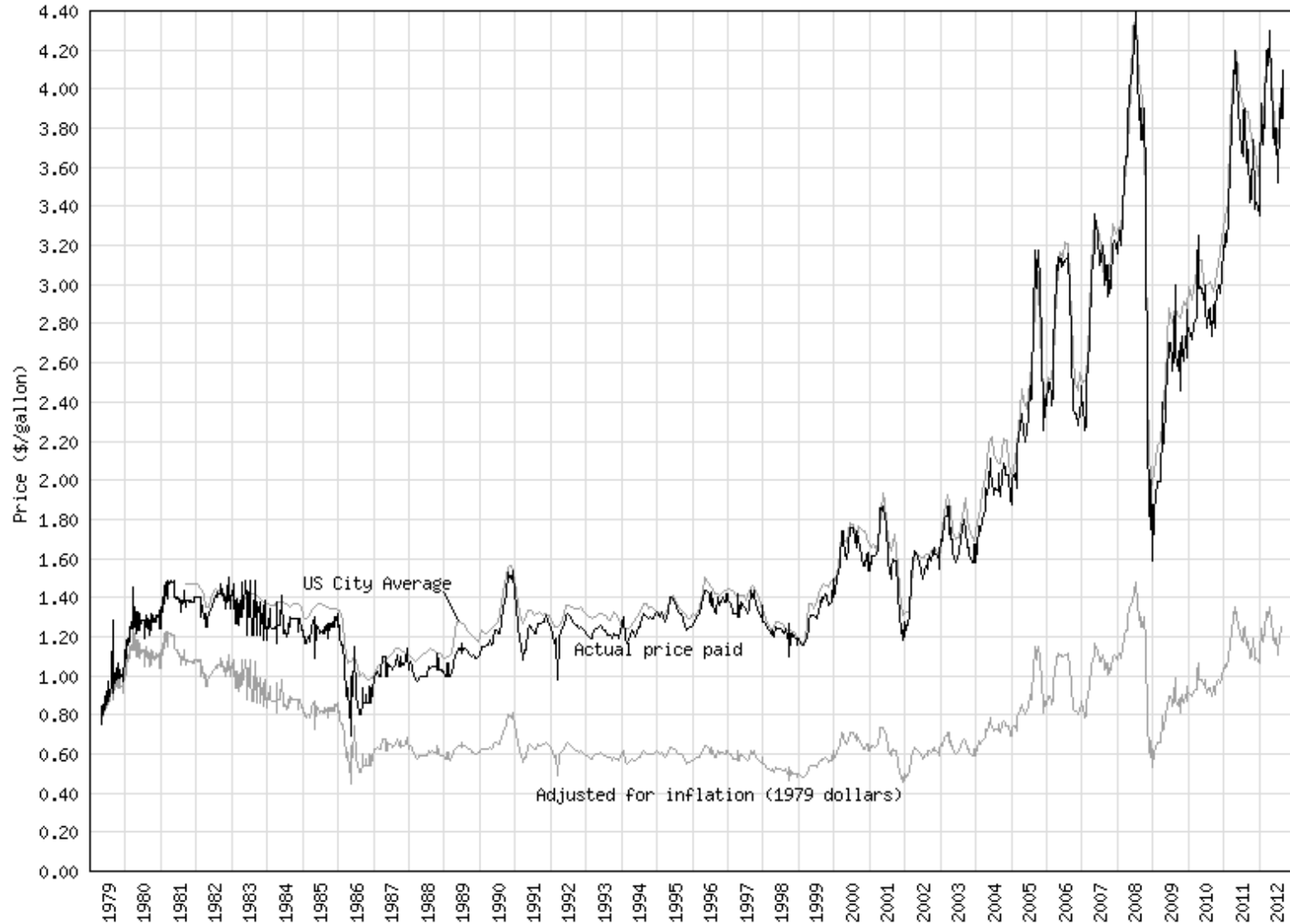
Vocabulary: Price floor

Federal Minimum Wage in Current Dollars



Vocabulary: Price floor

Texas Super-Unleaded Gasoline Price History



Vocabulary: Price floor

- But is the minimum wage a completely good thing?



Vocabulary: Price floor

- So how would we draw a price floor on our supply and demand graph?

Does a price floor result in excess supply or excess demand?