

LECTURE 07: UNDERSTANDING SUPPLY AND DEMAND

- I. Revisiting
 - a. Determining which way which curve shifts can be difficult for new students of supply and demand analysis. The best way to figure it out is to first note that any shift will result in one of four results:
 - i. The price will increase and the quantity will decrease.
 - ii. The price will increase and the quantity will increase.
 - iii. The price will decrease and the quantity will decrease.
 - iv. The price will decrease and the quantity will increase.
 - b. Then ask yourself which outcome seems most appropriate for the change that occurs. Each possibility corresponds to one and only one scenario: supply to the left (i); demand to the right (ii); demand to the left (iii); and supply to the right (iv).
 - c. Another strategy is to remember that supply is marginal cost and demand is marginal benefit. Then ask yourself if the change should affect how much consumers like the good or service or if it should affect how easy it is to provide the good or service.
- II. Group work
 - a. Break into groups of three or four. Each group will get an activity sheet with instructions. Complete as much as you can.