Marketing – Demand, Supply and Price relationship

- **Demand, supply and price relationship – p.248**

The central aim of marketing is ___________________________________

KEY DEFINITIONS

demand the quantity of a product that consumers are willing and able to buy at a given price in a time period

supply the quantity of a product that firms are prepared to supply at a given price in a time period

*In free markets the **equilibrium price** is determined when* ________________________

Demand:

1. This varies with **P**__________ **-** for all **N**___________ goods the **quantity bought** rises with a price **F**____________ and quantity bought **falls** with a **price INCREASE**.
2. Apart from price changes – which cause a new position on the demand curve. The level of demand can **vary** due to a change in any of these determinants of demand:
    a.
    b.
    c.
    d.
    e.
3. All of these changes above lead to a new **DEMAND** curve. So, for example, the demand for holidays will increase to **D_1**, after an increase in consumer incomes.

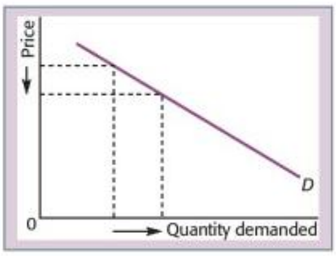

Figure 14.1 A normal relationship between price and demand for a product

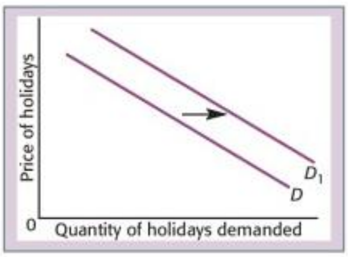

Figure 14.2 New demand curve, D_1, caused by changes in the determinants of demand

Supply

1. This varies with price – firms are more WILLING to supply a product if the price **rises** and WILL **supply less** as the price falls.

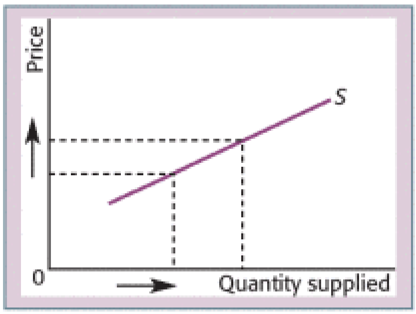

Figure 14.3 Supply increases when the price rises

2. Apart from changes in price- which causes a new position on the supply curve – the level of supply of a product can vary due to a change in any of these determinants of supply:
    a. **Cost of production –**
    b. **Taxes**
    c. **Subsidies paid**
    d. **Weather**
    e. **Advances in technology**

3. All of these changes above lead to a new supply curve. For example, the supply of rice will be **reduced** after very poor weather in the major growing areas. This leads to $\mathbf{S_2}$.

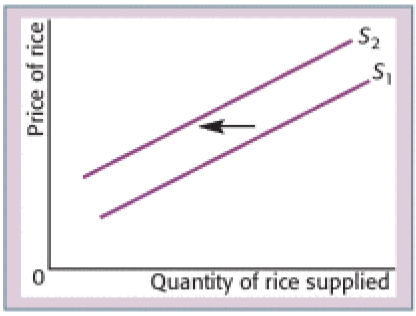

Figure 14.4 Supply of rice falls after a bad harvest

Activity 14.2

notes:

Determining the equilibrium price:

Equilibrium price is

When ____________ and ________________ are combined, the ___________________ price will be determined. This will be at the **point** where ___________=___________.

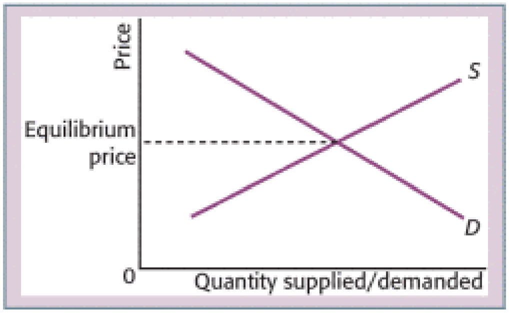

Figure 14.5 Equilibrium price is at the level that equates demand with supply

If the supply were higher than this, there would be unsold ___________ - _____________ SUPPLY.

Suppliers DON"T want this, so will _________ the price.

If the price is lower than the equilibrium, then ***stocks*** *will run out – leave excess __________.*

Suppliers could make a higher profit by raising the price – to the equilibrium level.

Activity 14.3

1.

Activity 14.3 cont.

2.

Summary of the worksheet in your own words (in English and Chinese):

Vocabulary check:

English	Chinese