Capitalism Lesson 11 Supply and Demand

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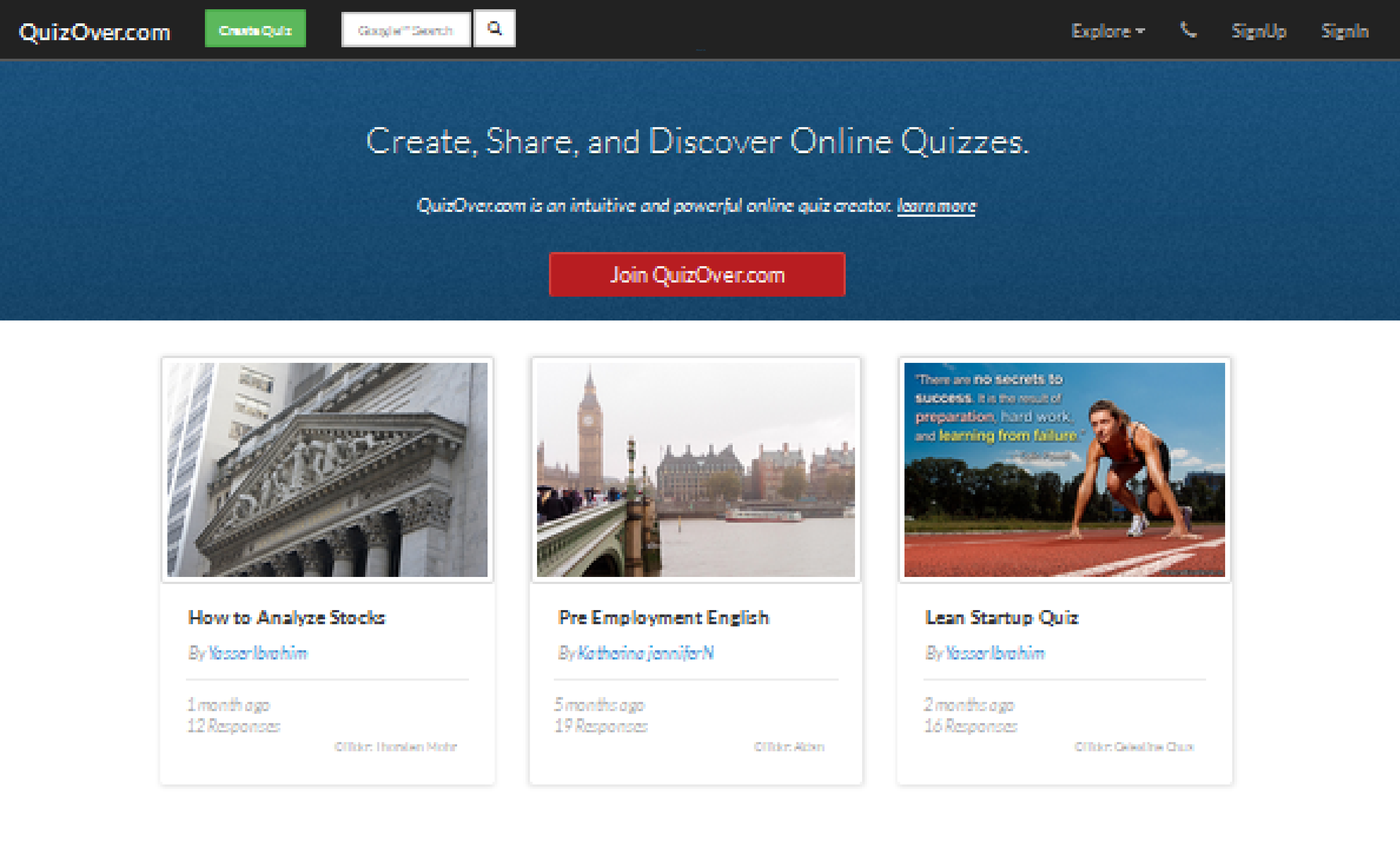

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4. Chapter: Lesson 11 Supply and Demand

1. Lesson 11 Supply and Demand Questions

4.1.1. Why does the text say that supply and demand can never be proven fa...

Author: Robert Murphy

Why does the text say that supply and demand can never be proven false?

- The concepts of supply and demand are not "theories," they are instead tools of analysis. Future economists might stop using them as tools if they find different ways of explaining market prices that are more convenient or superior in some other fashion.

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4.1.2. Why does the text say that demand is a snapshot in time?

Author: Robert Murphy

Why does the text say that demand is a snapshot in time?

- A person's demand schedule is an instantaneous relationship between hypothetical prices and the corresponding quantity the person would buy at each price. If time passes, the person's preferences or other factors might change, leading to a different demand schedule.

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4.1.3. How do you go from individual demand or supply schedules, to market...

Author: Robert Murphy

How do you go from individual demand or supply schedules, to market demand and supply schedules?

- At each price, the market quantity of demand or supply is the summation of the individual quantities at that price.

4.1.4. Explain how the market process tends to push prices toward their eq...

Author: Robert Murphy

Explain how the market process tends to push prices toward their equilibrium levels.

- If the price is above the equilibrium level, the quantity supplied exceeds the quantity demanded, meaning there is a surplus
  or glut. Because producers are trying to sell more units than buyers wish to purchase, they tend to lower their asking
  price. On the other hand, if the price is below the equilibrium level, the quantity demanded exceeds the quantity supplied,
  meaning there is a shortage. Because consumers are trying to buy more units than producers wish to sell, producers have an
  incentive to raise their asking price (or consumers bid higher prices, depending on the mechanics of the particular market).

4.1.5. If supply increases while demand decreases, what can we say about t...

Author: Robert Murphy

If supply increases while demand decreases, what can we say about the change in (equilibrium) price? What about the change in (equilibrium) quantity?

- The equilibrium price will definitely drop, because both changes point in that direction. However, we don't know what will happen to the equilibrium quantity, because the supply shift tends to increase it, while the demand shift tends to decrease it. Without more information we don't know which effect will dominate.

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4.1.6. Define supply (not the Law of Supply).

Author: Robert Murphy

Define supply (not the Law of Supply).

- The relationship between hypothetical prices and the quantity of a good or service that producers want to sell at each price.
  Sample Partial Credit Answer
  How much producers want to sell.

Check the answer of this question online at QuizOver.com:
Question: Define supply not the Law of Supply . by Dr. Robert Murphy @Mises

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4.1.7. Define demand (not the Law of Demand).

Author: Robert Murphy

Define demand (not the Law of Demand).

- The relationship between hypothetical prices and the quantity of a good or service that consumers want to buy at each price.
  Sample Partial Credit Answer
  How much consumers want to buy.

Check the answer of this question online at QuizOver.com:
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4.1.8. Why is it called an "equilibrium" price when quantity demanded equa...

Author: Robert Murphy

Why is it called an "equilibrium" price when quantity demanded equals quantity supplied?

- If the price were higher than the equilibrium price, there would be a surplus and producers would lower prices to move the unsold stock. If the price were lower than the equilibrium price, there would be a shortage and consumers would bid up the price on the available stock. Only at the equilibrium price is there no incentive for the price to move away, hence it is a stable position for the price.
  Sample Partial Credit Answer
  It is a stable point.

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4.1.9. Explain how the demand for something can remain constant, but the q...

Author: Robert Murphy

Explain how the demand for something can remain constant, but the quantity demanded can decline.

- If the price goes up, then we move along the original demand curve. The curve itself stays put, so "demand" is constant, but at the higher price there is a lower quantity demanded.
  Sample Partial Credit Answer
  The price can change.

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4.1.10. Explain how a glut in the orange market can be bad news for the pro...

Author: Robert Murphy

Explain how a glut in the orange market can be bad news for the producers of apples.

- A glut in the orange market will probably lead to lower orange prices. Then, since oranges are substitutes for apples (at least for many consumers), the lower orange prices will lead to a leftward shift in the demand for apples. Apple producers will therefore earn a lower price on apples.
  Sample Partial Credit Answer
  It will push down the price of apples.

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