chapter 5

Economy and Business

Introduction to Business
DBB 1213

Instructor Lecture PowerPoints

PowerPoint Presentation prepared by
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L E A R N I N G O B J E C T I V E S

After reading this chapter, you should be able to:

1. Describe the nature of demand, demand schedule and demand curve.
2. Describe the nature of supply, supply schedule and supply curve.
3. Understand the concept of equilibrium.
4. Discuss the concept of surplus and shortage.
5. Explain the four market structure.

The Concept of Economy

- Economy is defined as an area of the production, distribution, and consumption of goods and services.

- The economy is made up of buyers (consumers) and sellers. Most of us are both buyers and sellers.

- Buyer creates demand for a product and sellers supply the product that is demanded by the consumers.

DEMAND

Demand

- Demand is the quantity of a good that consumers are willing and able to purchase at various prices during a given period of time.

Law of Demand

- Buyer will purchase more as the price decrease and will purchase less as the price increase

DEMAND

Demand Schedule

- A table that indicates the quantity demanded at each price.

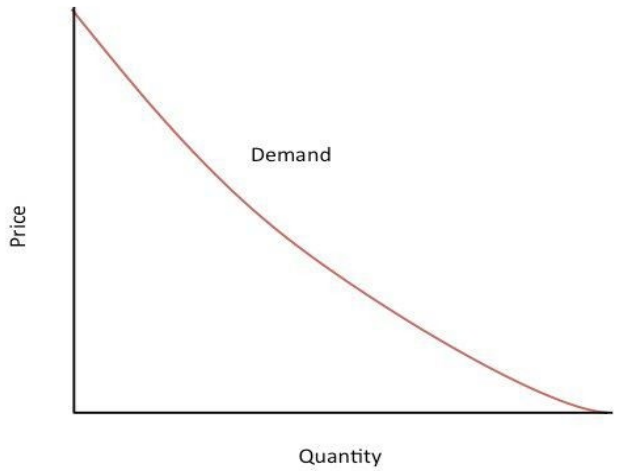
Price (P)	*Quantity Demanded (Qd)*
RM 2.00	**5**
RM 1.50	**7**
RM 1.00	15

Table 1: Demand schedule for currypuff pastry

DEMAND

Demand Curve

- A graphic representation of demand schedule.
- It shows the relationship between price and quantity demanded.
- It slopes downward.

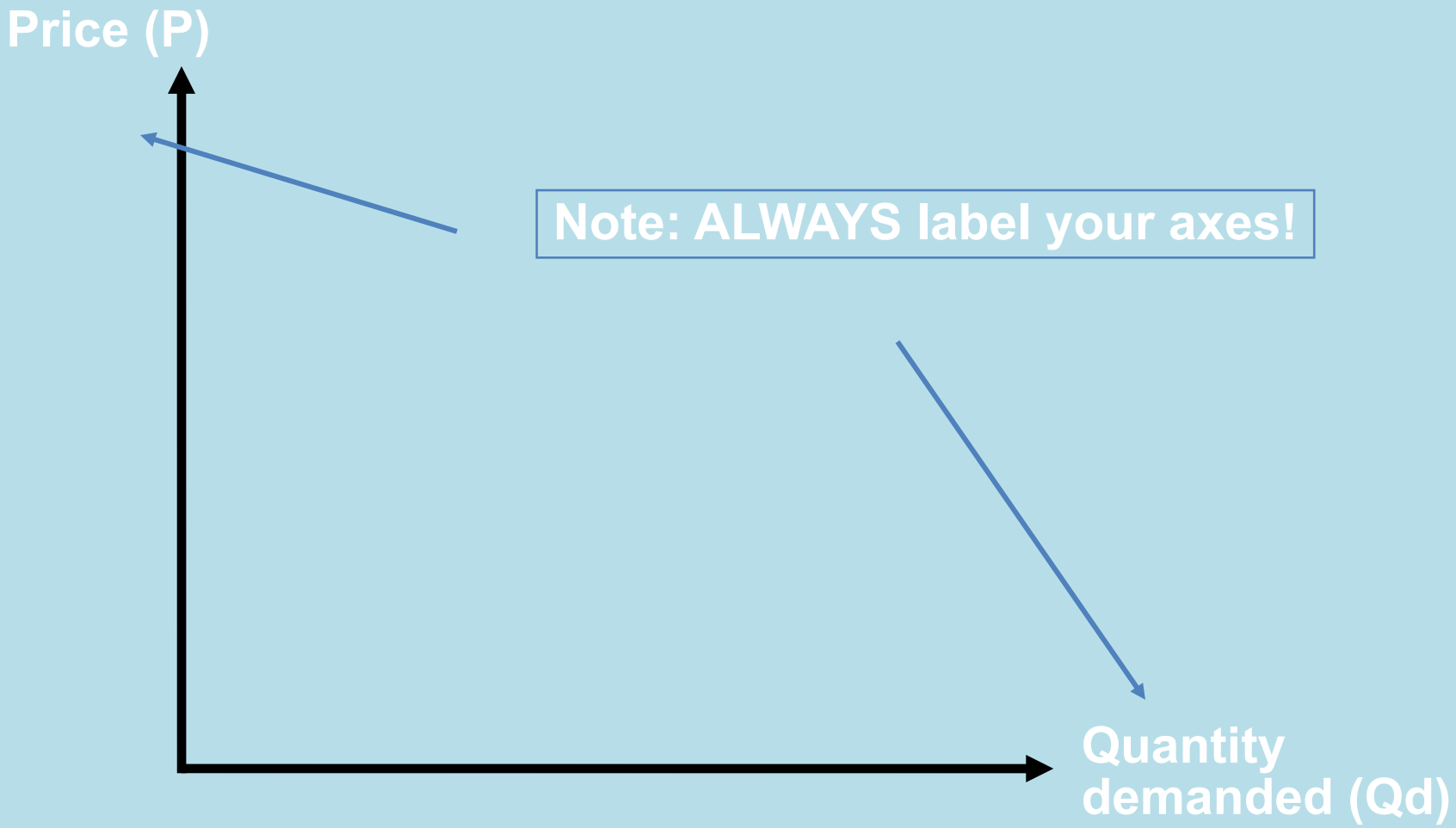


Exercise 1

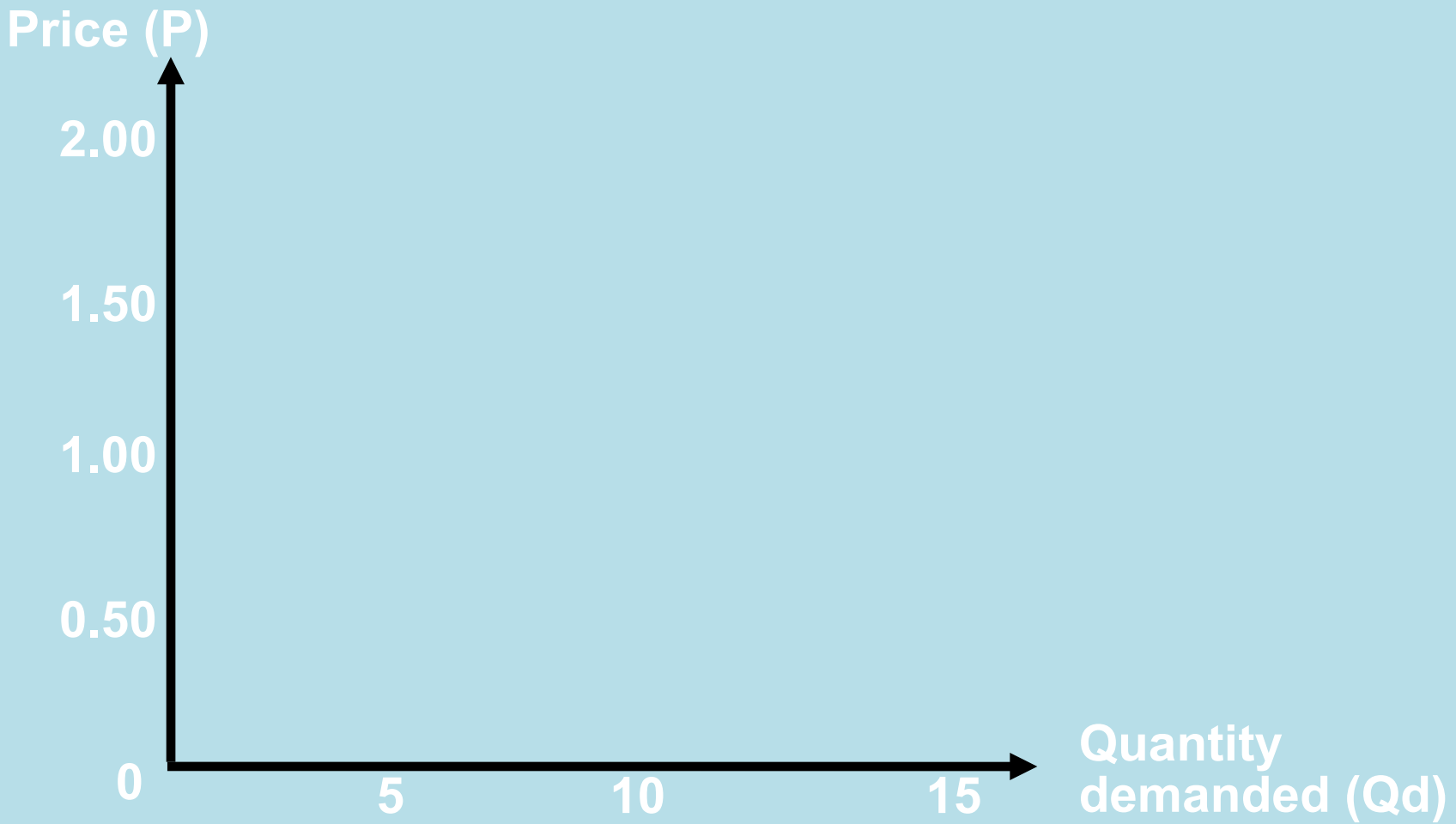
Plot the demand curve for currypuff pastry based on the demand schedule given.

Price (P)	*Quantity Demanded (Qd)*
RM 2.00	5
RM 1.50	7
RM 1.00	15

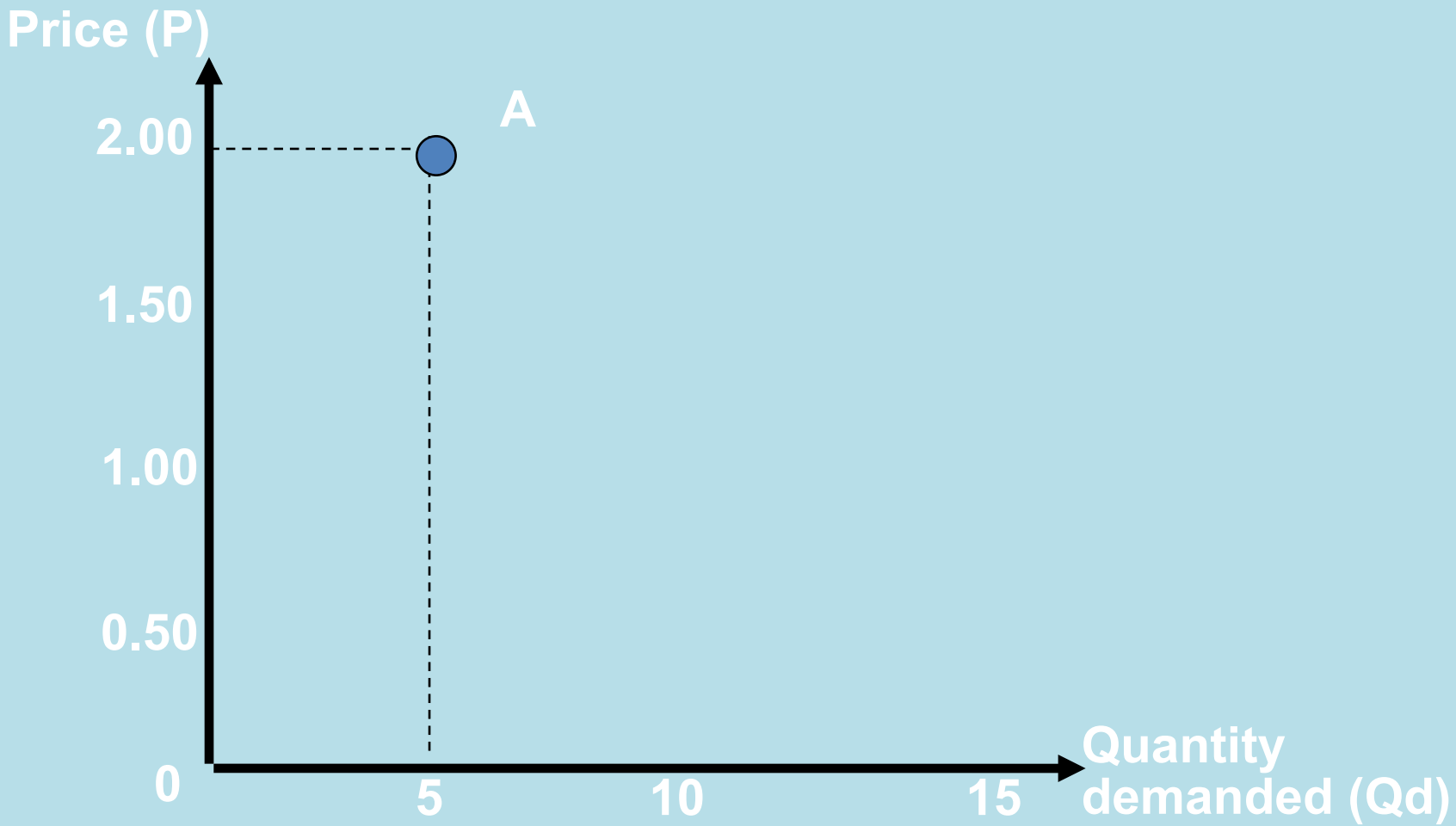
Demand Curve



Demand Curve



Demand Curve



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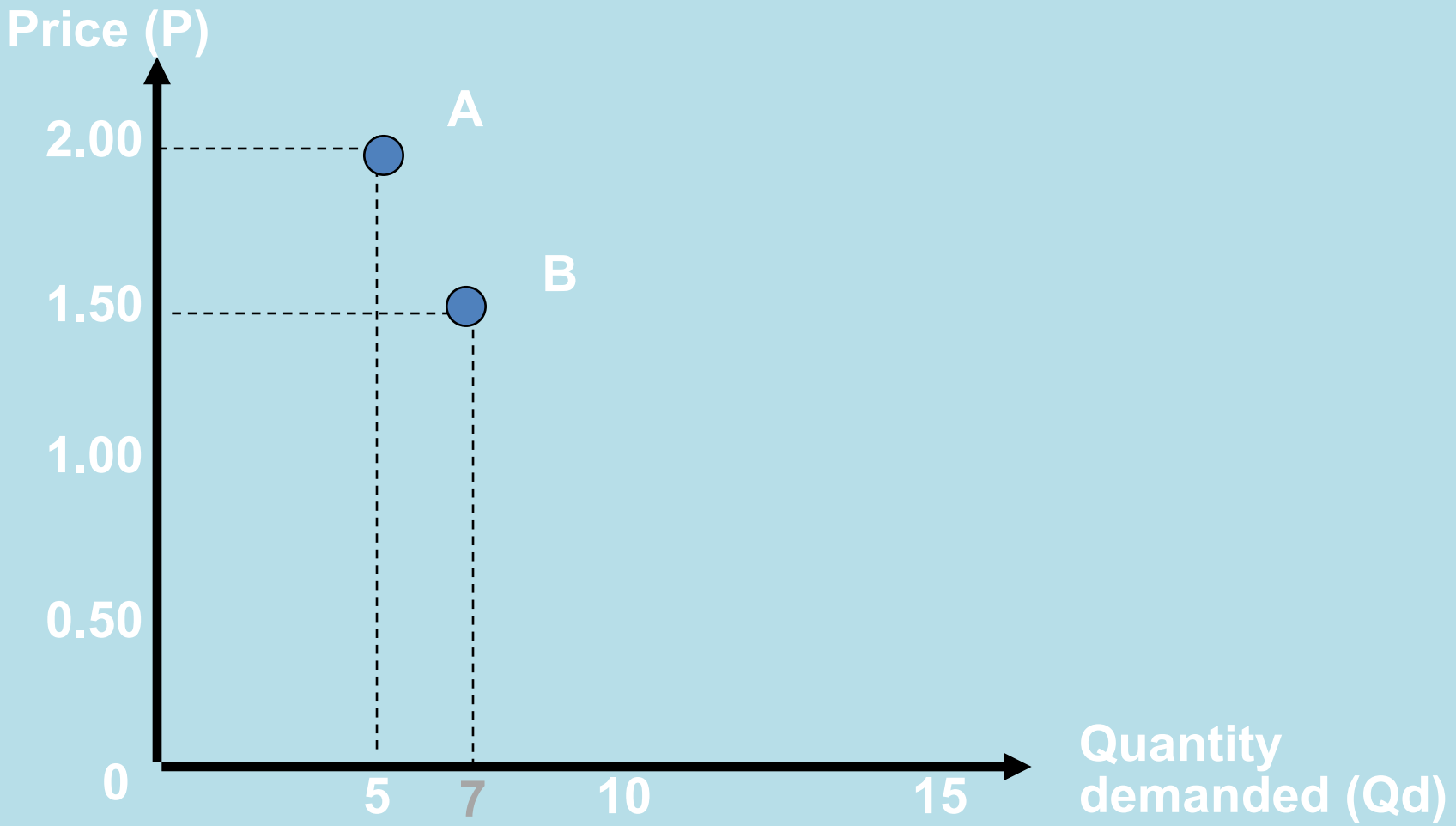

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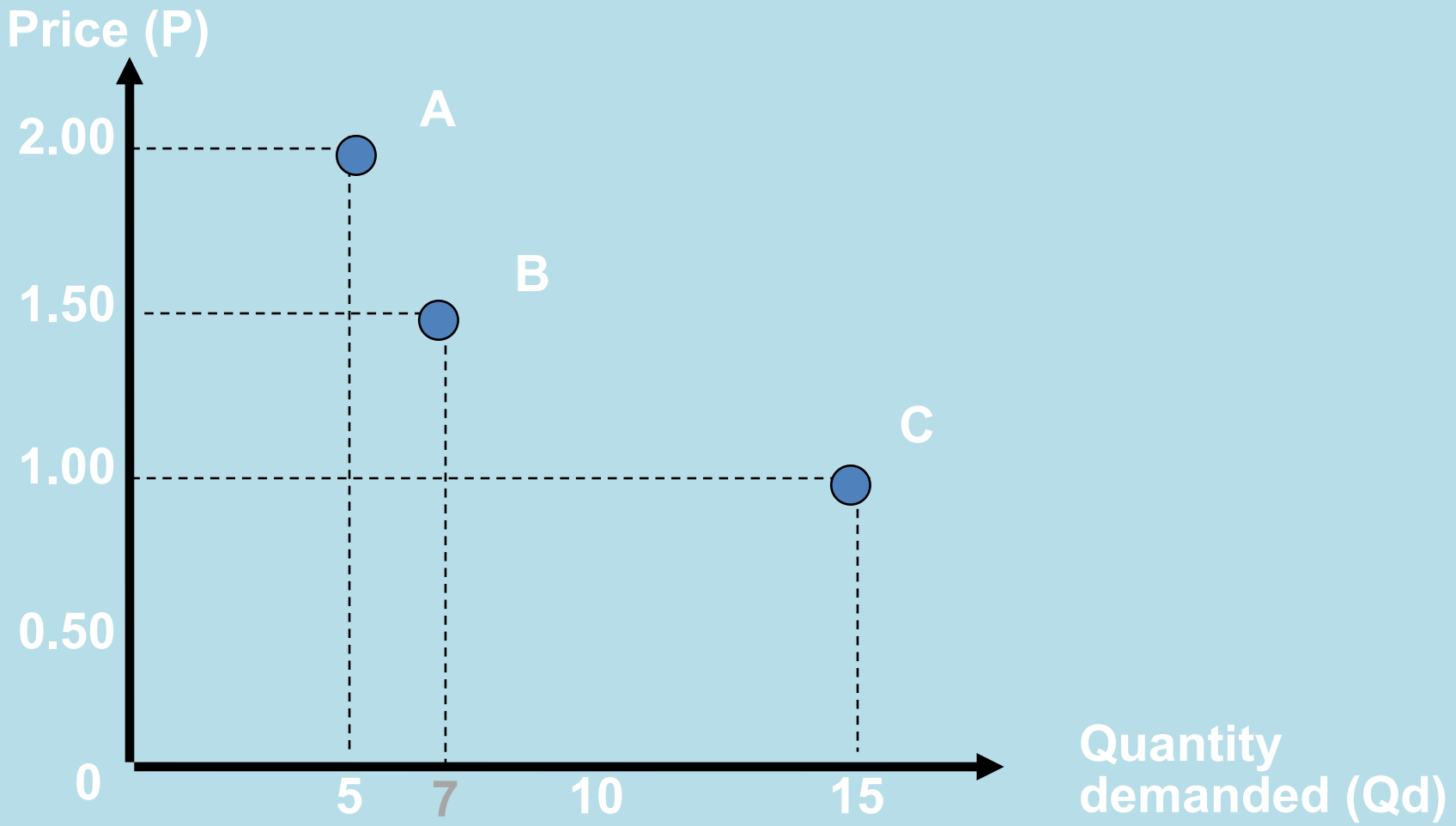
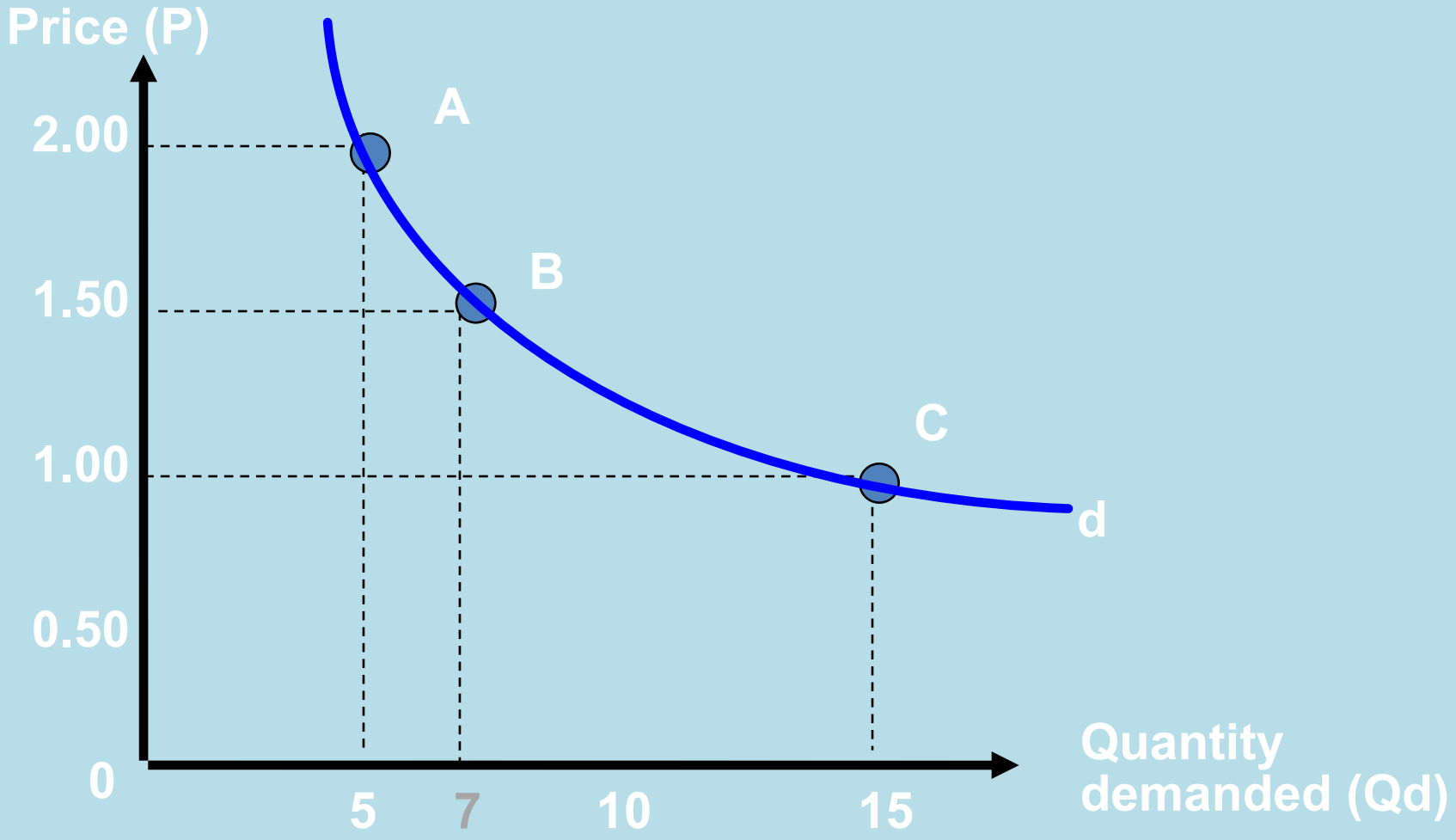


Demand Curve



SUPPLY

Supply

- The quantity of a product that will be offered to the market by a supplier.

The Law of Supply

- Supplier will supply more as the price increase and will supply less as the price decrease

SUPPLY

Supply schedule

- A table that shows the quantity supplied at each price.

Price (P)	*Quantity Supplied (Qs)*
RM 2.00	**13**
RM 1.50	**7**
RM 1.00	**5**

Table 2: Supply schedule for currypuff pastry

SUPPLY

Supply curve

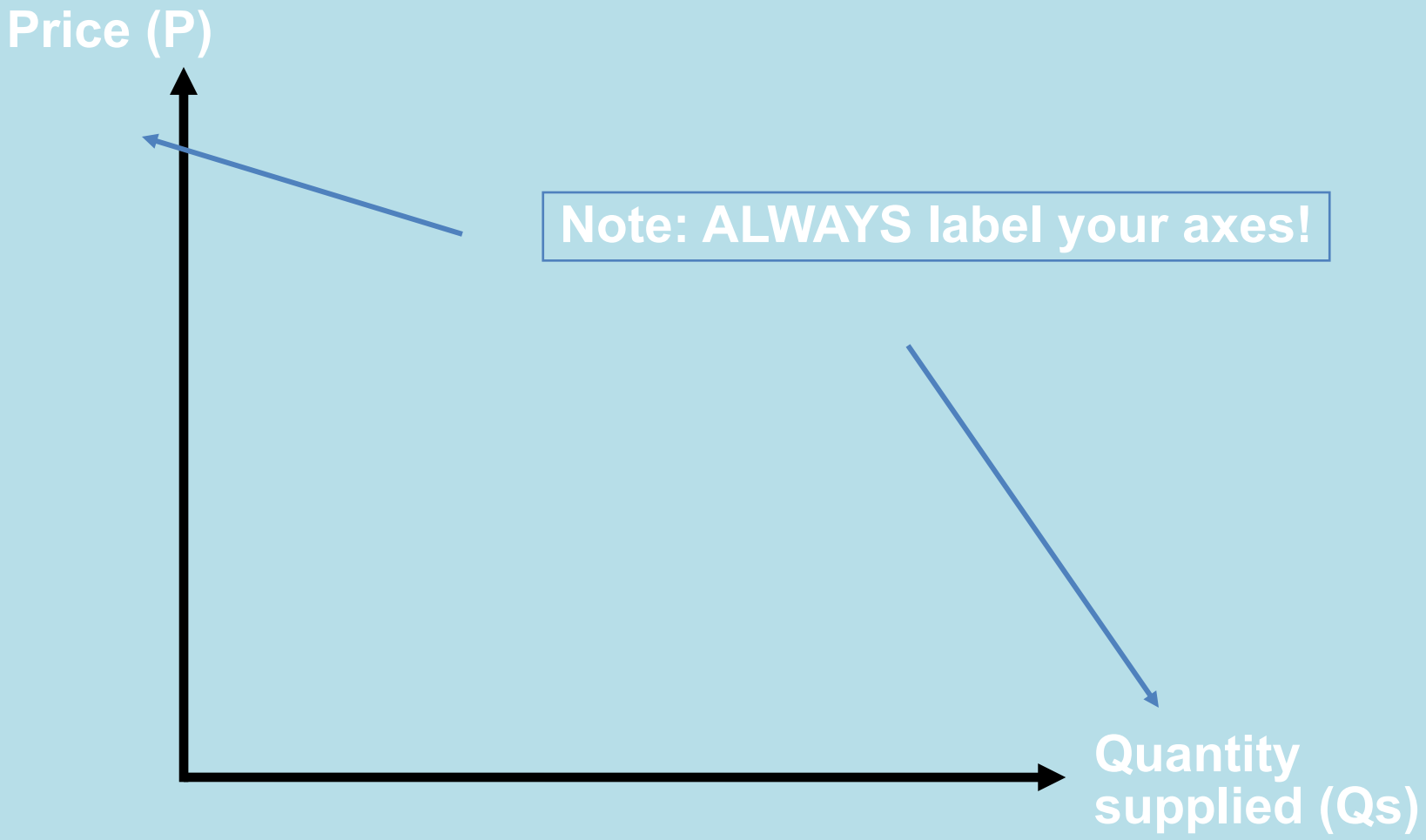
- The graphic representation of a supply schedule.
- The supply curve slopes upward.

Exercise 2

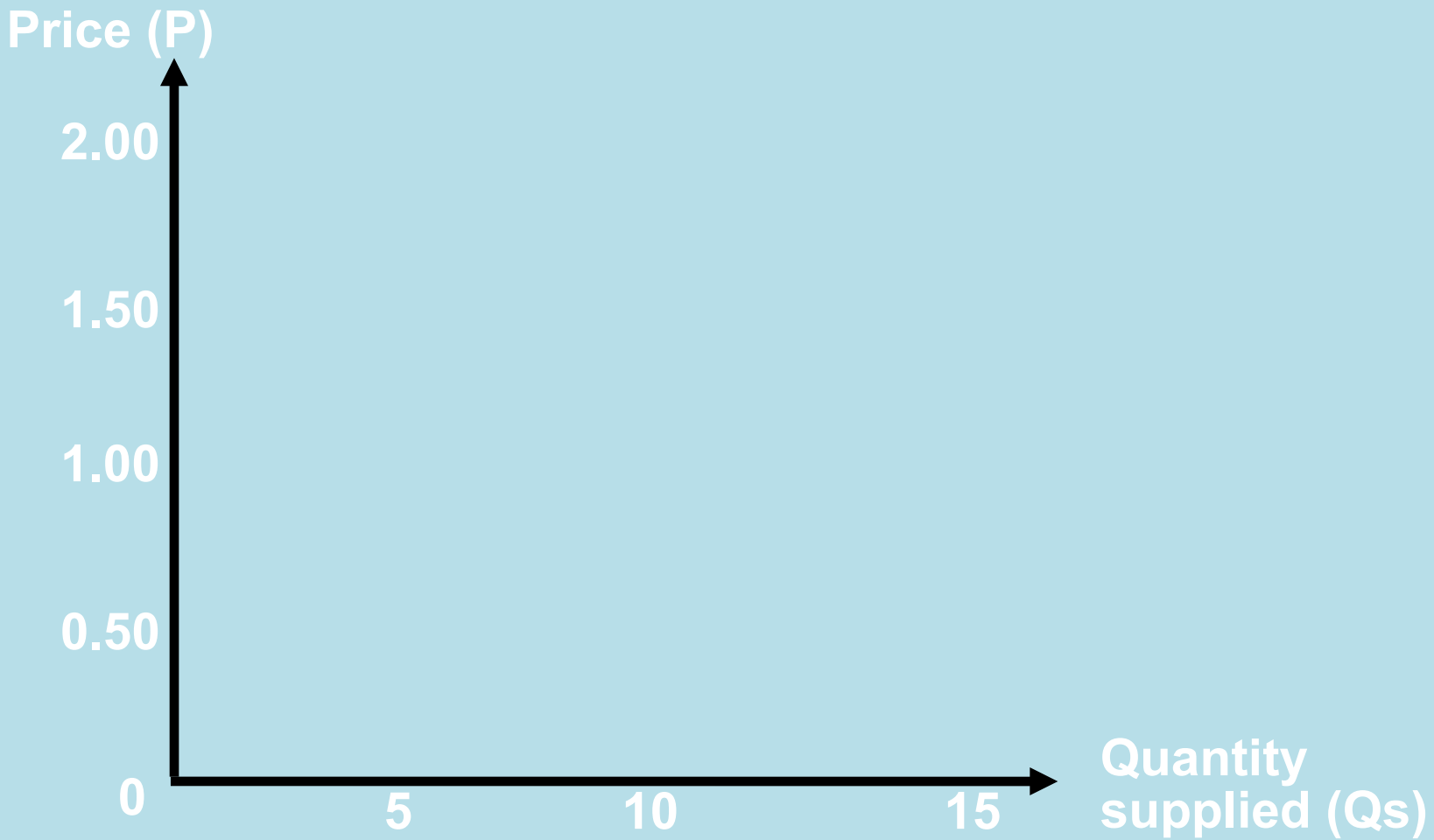
Plot the supply curve for currypuff pastry based on the supply schedule given.

Price (P)	*Quantity Supplied (Qs)*
RM 2.00	13
RM 1.50	7
RM 1.00	5

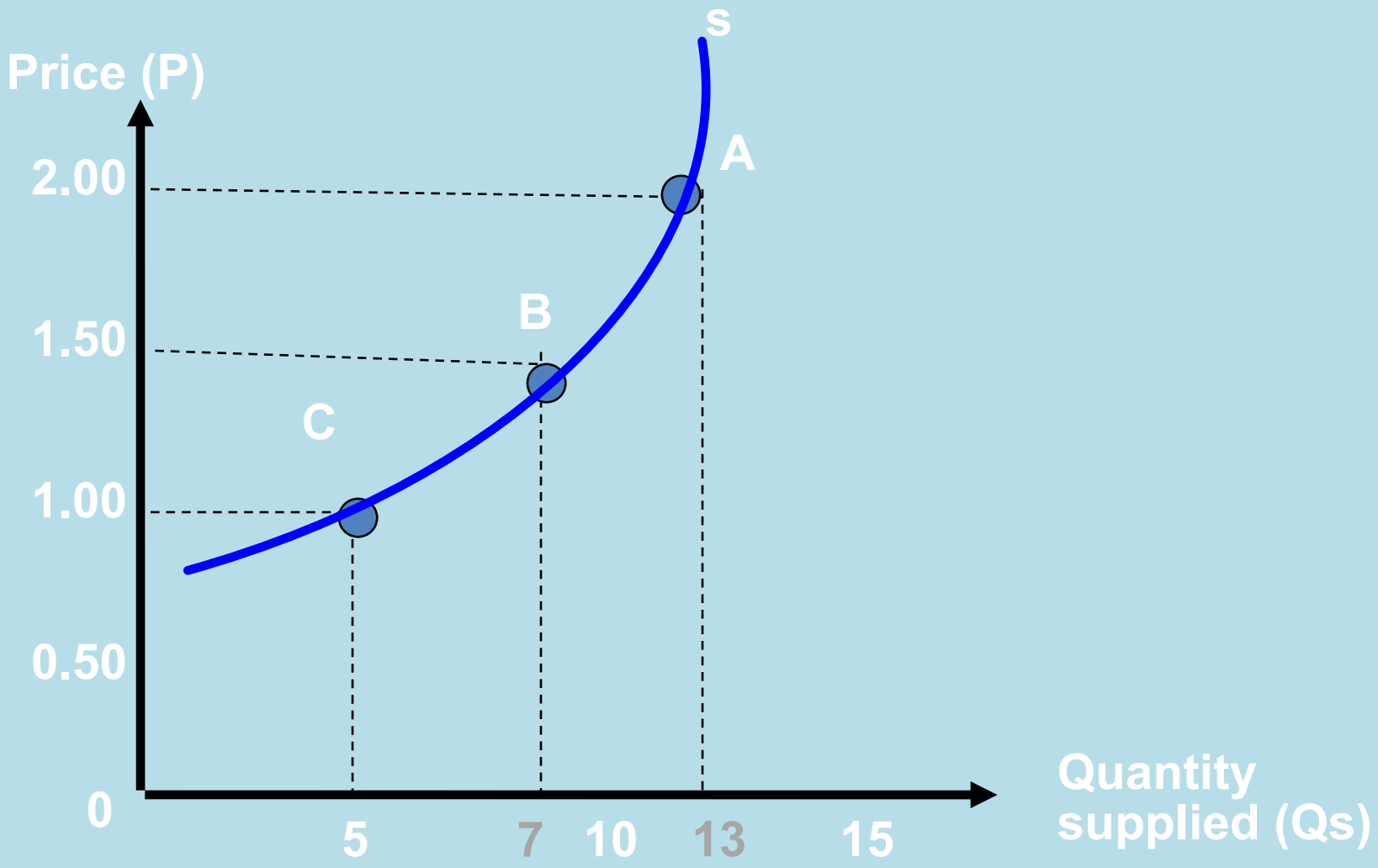
Supply Curve



Supply Curve



Supply Curve



Exercise 3

Plot the demand and supply curve for cheese tart on the same graph based on the schedule given.

Price of a Cheese Tart (RM)	Quantity of Cheese Tart Demanded	Quantity of Cheese Tart Supplied
0.00	16	0
1.00	13	1
2.00	10	4
3.00	7	7
4.00	4	10
5.00	1	13

MARKET EQUILIBRIUM

- **Equilibrium**
  - market demand and supply curves intersect
  - the quantity demanded by consumers = the quantity supplied by producers at a given price
  - no incentive for price to change

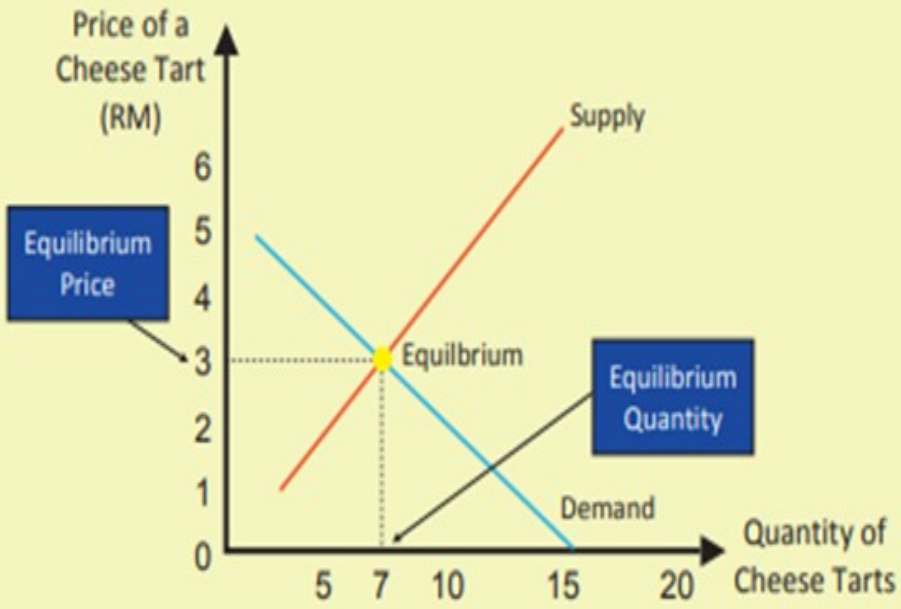
SURPLUS AND SHORTAGE

- Surplus
  - A situation in which the quantity supplied exceeds the quantity demanded
- Shortage
  - A situation in which the quantity demanded will be greater than the quantity supplied

SURPLUS AND SHORTAGE

Price of a Cheese Tart (RM)	Quantity of Cheese Tart Demanded	Quantity of Cheese Tart Supplied	Shortage / Surplus
0.00	16	0	Shortage
1.00	13	1	Shortage
2.00	10	4	Shortage
3.00	7	7	Balance
4.00	4	10	Surplus
5.00	1	13	Surplus

FIGURE 3.7: THE EQUILIBRIUM OF SUPPLY AND DEMAND



When the market demand and supply curves intersect, the market is in equilibrium. At the equilibrium price, the quantity demanded equals the quantity supplied. The equilibrium price on the above diagram is RM3. Priced at RM3, seven cheese tarts are demanded and seven cheese tarts are supplied

FIGURE 3.9: MARKET NOT IN EQUILIBRIUM (EXCESS DEMAND)

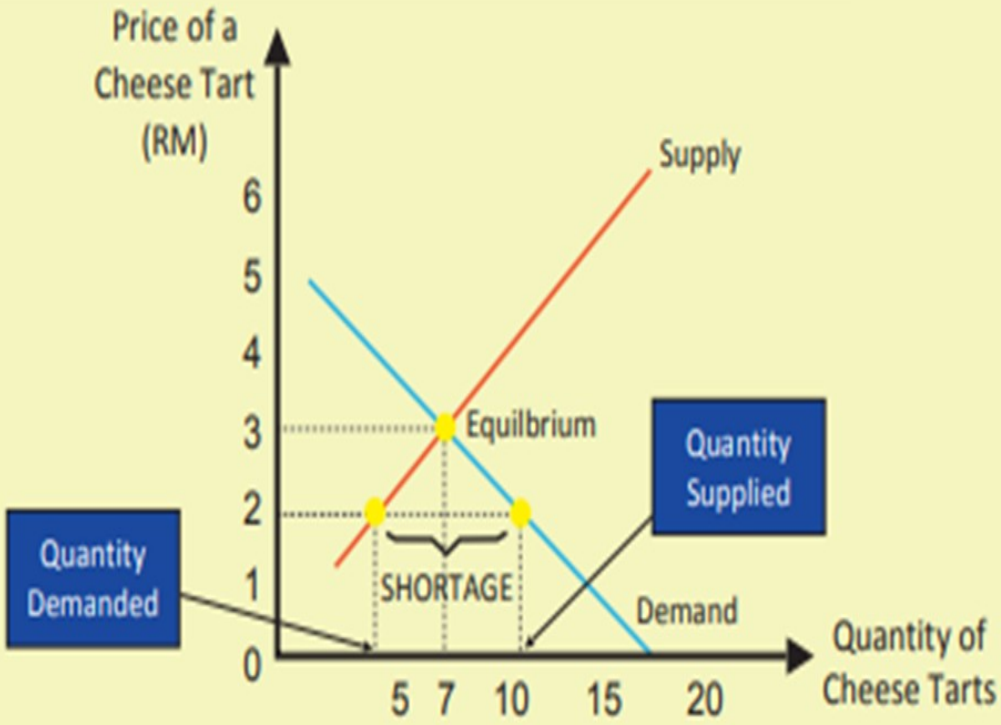
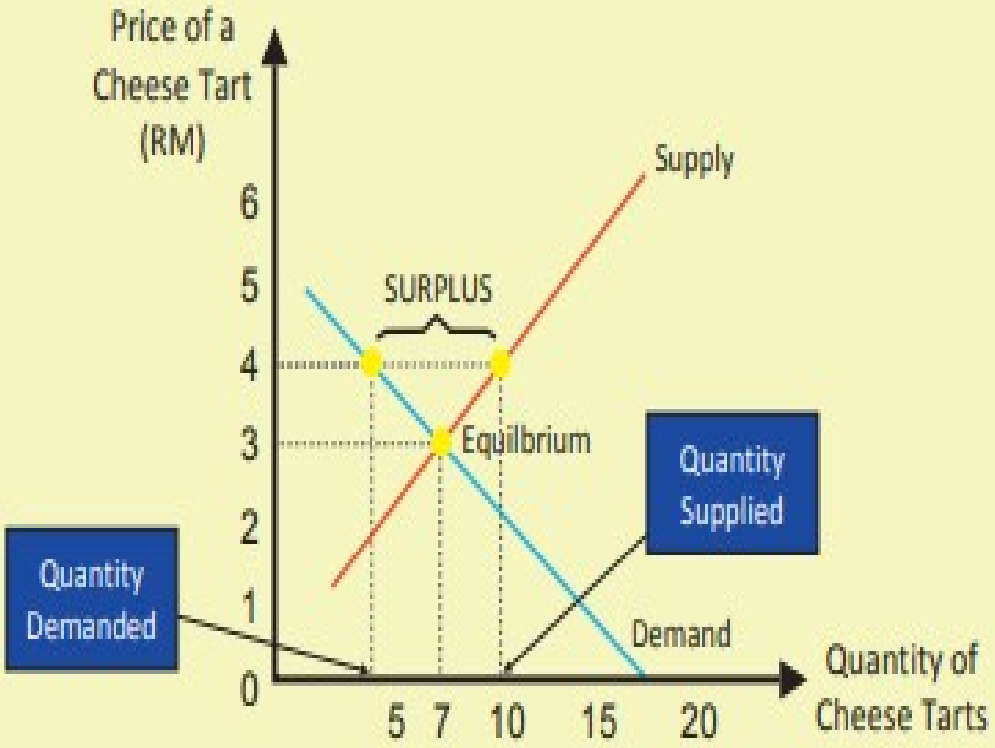


FIGURE 3.8: MARKET NOT IN EQUILIBRIUM (EXCESS SUPPLY)



THE FOUR MARKET STRUCTURE

1. **Perfect competition:** Lots small firms compete against each other.
2. **Monopolistic competition:** Contains many competing firms, each of which has a similar but at least slightly different product.
3. **Oligopoly:** An oligopoly is an industry with only a few firms
4. **Monopoly:** A firm that has no competitors in its industry.

THE FOUR MARKET STRUCTURE

Perfect Competition

- Prices are determined by supply and demand because no single firm is powerful enough to influence the price of its product.
  - All firms in an industry are small.
  - The number of firms in the industry is large.

- Principles of perfect competition:
  - Buyers view all products as **identical**.
  - Buyers and sellers know the prices that others are paying and receiving in the marketplace.
  - It is easy for firms to enter or leave the market.
  - Seller cant control price because there is a lot of number of identical seller.

THE FOUR MARKET STRUCTURE

Monopolistic Competition

- There are numerous sellers trying to differentiate their products from those of competitors so as to have some control over price.
- There are many sellers
- Sellers can enter or leave the market easily.
- The large number of buyers relative to sellers applies potential limits to prices.

THE FOUR MARKET STRUCTURE

Oligopoly

- An industry with only a few large sellers.
- Entry by new competitors is hard because large capital investment is needed.
- The actions of one firm can significantly affect the sales of every other firm in the industry.
- The prices of comparable products are usually similar.
- As the trend toward globalization continues, most experts believe that oligopolies will become increasingly prevalent.

THE FOUR MARKET STRUCTURE

Monopoly

- An industry or market that has only one producer (or else is so dominated by one producer that other firms cannot compete with it).
  - The sole supplier enjoys complete control over the prices of its products; its only constraint is a decrease in consumer demand due to increased prices.

THE FOUR MARKET STRUCTURE

Characteristic	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
Sample	Local farmer	Stationery store	Steel industry	Public utility
Number of competitors	Many	Many, but fewer than in perfect competition	Few	None
Ease of entry into industry	Easy	Fairly easy	Difficult	Regulated by government
Similarity of goods or services offered by competing firms	Identical	Similar	Can be similar or different	No directly competing goods/services
Level of control over price by individual firms	None	Some	Some	Considerable

END OF CHAPTER 5