Market Transactions: Basic Supply and Demand Analysis

(1) ___________ (Markets, Trade publications) communicate information to buyers and sellers alike. The forces of supply and demand, which are basic to every market, interact to produce a (2) ___________ (market quantity, market price) that acts as a vehicle for communicating the wants of buyers to sellers. (3) ___________ (Cost-benefit analysis, Supply and demand analysis) is a method of isolating the forces of supply and demand so that the factors determining market prices can be understood. This allows us to better understand the communication and rationing functions of the price system.

Demand constitutes amounts of goods and services that buyers are willing and able to buy at a given price during a given period. A (4) ___________ (demand schedule, demand curve) is a table of data showing the relationship between the prices of a good and the associated quantities demanded, holding all other influencing factors unchanged. A (5) ___________ (demand curve, demand schedule) is a plot of the price-quantity demanded coordinates. The demand schedule and its demand curve show that price and quantity demanded are negatively related. This relationship is known as the law of (6) ___________ (increasing returns, demand). When there is a change in price, quantity demanded changes. This is called a (7) ___________ (change in demand, change in quantity demanded).

A change in demand determinants other than the price of the good will shift the demand curve. A shift in the demand curve means that, at a given price, quantity demanded will either increase or decrease. This is called a (8) ___________ (change in demand, change in quantity demanded). Changes in demand are caused by changes in (a) income, (b) wealth, (c) the prices of related goods, (d) price expectations, (e) tastes, and (f) the number of buyers in the market.

Supply represents the quantities that sellers are willing and able to produce and make available to the market at a given price during a given period. A (9) ___________ (supply schedule, supply curve) is a table of data showing the relationship between the prices of a good and the associated quantities supplied by sellers, all other influences on supply remaining the same. A (10) ___________ (supply curve, supply schedule) is a plot of the price quantity supplied coordinates. The relationship between price and quantity supplied is a positive one and is called the law of (11) ___________ (monetary incentives, supply). A (12) ___________ (change in quantity supplied, change in supply) is caused by a price change. This is shown by a movement along a given supply curve. A (13) ___________ (change in quantity supplied, change in supply) is the result of influences other than price, such as (a) the price of inputs, (b) prices of other goods, (c) technology, (d) price expectations, and (e) the number of sellers in a market. These nonprice influences shift the supply curve.

The forces of supply and demand interact to produce a market (14) ___________ (outcome, equilibrium), or state of balance, where the quantities demanded by buyers are just equal to the quantities supplied by sellers. In a state of equilibrium, buyers and sellers have no incentive to alter levels of consumption or production. It is the market (15) ___________ (price, quantity) that equates the quantities supplied and demanded.

A price above a market equilibrium price results in a (16) ___________ (shortage, surplus) because the quantity supplied at this price exceeds the quantity demanded. A price below the equilibrium price causes a (17) ___________ (shortage, surplus) because the quantity demanded exceeds the quantity supplied. In a competitive market, a seller tries to get rid of surpluses by (18) ___________ (increasing inventories, cutting prices). Falling prices will reduce surpluses. When the price falls enough to equal the market equilibrium price, the (19) ___________ (shortage, surplus) is eliminated completely.

Shortages require some form of rationing. Sellers ration the limited supply of goods among competing buyers by (20) ___________ (increasing, decreasing) prices. But price increases reduce the quantities demanded and increase the quantities supplied, which in turn reduce the shortage. Shortages are completely eliminated when the price has risen (21) ___________ (above, equal to) the market equilibrium price. Market prices remain unchanged in a competitive market unless the underlying forces of supply or demand change. A change in demand, a change in supply, or a change in both supply and demand (22) ___________ (can, cannot) alter the market equilibrium price and quantity.