# Economics for Economics

# Lecture Note 1

# Demand, Supply and Market Equilibrium

As an economist, your ability to communicate complex ideas clearly is just as important as your understanding of the concepts themselves. This lecture note will provide you with the essential vocabulary and grammatical structures needed to effectively explain the fundamental economic principles of demand, supply, and market equilibrium.

## The Language of Demand and Supply

When discussing demand and supply, we are describing the behavior of consumers and producers in a market. It's crucial to use precise language to describe these relationships.

### Describing Demand

The **Law of Demand** states that there is an **inverse relationship** between the **price** of a good or service and the **quantity demanded**.

- **Key Phrases:**
    - "As the **price rises**, the **quantity demanded falls**."
    - "As the **price drops**, the **quantity demanded increases**."
    - "This shows a **negative** or **inverse correlation** between price and quantity demanded."
    - "The demand curve is **downward-sloping**, reflecting this relationship."
    - "A change in price causes a **movement along** the demand curve."

### Describing Supply

The **Law of Supply** states that there is a **direct relationship** between the **price** of a good and the **quantity supplied**.

- **Key Phrases:**
    - "As the **price increases**, the **quantity supplied also increases**."
    - "A price decrease leads to a **reduction** in the quantity supplied."
    - "This demonstrates a **positive** or **direct correlation** between price and quantity supplied."
    - "The supply curve is **upward-sloping**."
    - "A change in price causes a **movement along** the supply curve."

## The Language of Market Equilibrium

**Market equilibrium** is the point where the forces of supply and demand are balanced. This is a crucial concept to explain.

- **Key Phrases:**
  - "The point where the demand and supply curves **intersect** is the **equilibrium point**."
  - "At this point, the **quantity demanded equals the quantity supplied**."
  - "The corresponding price is the **equilibrium price**, also known as the **market-clearing price**."
  - "The quantity at this point is the **equilibrium quantity**."
  - "At the equilibrium price, there is **no surplus** (excess supply) or **shortage** (excess demand) in the market."
  - "The market **tends to move toward** this equilibrium point."

## The Language of Market Shifts

It's vital to differentiate between a change in a market's underlying conditions (a **shift**) and a simple price change (a **movement** along the curve).

### Shifts in Demand

A shift in the demand curve is caused by a change in a factor other than the product's price.

- **Key Phrases for Explaining a Demand Increase:**
  - "An **increase** in consumer income will **shift the demand curve to the right**."
  - "This **shift indicates** that at every price, a **greater quantity is demanded**."
  - "This **creates a shortage** at the original price, causing the new equilibrium price and quantity to rise."
- **Key Phrases for Explaining a Demand Decrease:**
  - "A new substitute product will cause the **demand curve to shift to the left**."
  - "This **shift shows** that at every price, a **lower quantity is demanded**."
  - "This leads to a **surplus**, which puts **downward pressure** on price and quantity."

### Shifts in Supply

A shift in the supply curve is caused by a change in a factor other than the product's price, such as technology or input costs.

- **Key Phrases for Explaining a Supply Increase:**
  - "A **technological improvement** in production will **shift the supply curve to the right**."
  - "This **shift means** that at every price, a **greater quantity is supplied**."
  - "This results in a **surplus**, which causes the new equilibrium price to fall and quantity to rise."

* **Key Phrases for Explaining a Supply Decrease:**
    * "A **rise in the cost of raw materials** will **shift the supply curve to the left**."
    * "This **shift shows** that at every price, a **lower quantity is supplied**."
    * "This leads to a **shortage**, causing the equilibrium price to rise and quantity to fall."

## Conclusion

By mastering this terminology and these key phrases, you will be able to explain the core concepts of demand, supply, and equilibrium with clarity and confidence. The key is to be precise with your language, differentiating between movements along a curve and shifts of the entire curve.