

BUILDING BLOCKS OF ECONOMY - Demand & Supply

Chapter introduction:

Economics is about how people make choices with limited resources.

The basic building blocks are Demand and Supply.

Section 1. What is Demand?

Demand is the quantity of a good that consumers are willing and able to buy at different prices during a given period.

Law of Demand:

When price goes up, demand goes down. When price goes down, demand goes up.

Other things remaining constant (ceteris paribus).

Factors affecting demand:

- Price of the good
- Income of consumer
- Price of related goods
- Tastes and preferences
- Expectations

* Note: We assume all other factors stay constant when analyzing demand.

★ SUPPLY - Concept

Definition:

Supply is the quantity of a good that producers are willing and able to sell at different prices during a given period.

Law of Supply:

- When price goes up, supply goes up. ↗
 - When price goes down, supply goes down. ↘
- ∴ Direct relationship between Price & Supply

Factors affecting supply:

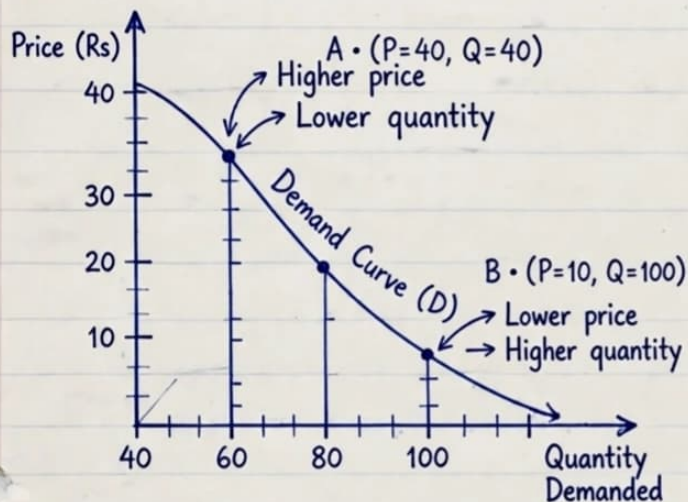
1. Price of the good
2. Cost of inputs
3. Technology
4. Number of sellers
5. Government taxes/subsidies
6. Expectations

Remember: Higher price → more
incentive for producers → ↑ supply

★ Demand Curve and Demand Schedule ★

1. Demand Curve

- Demand Curve shows the relationship b/w Price (on Y-axis) & Quantity Demanded (on X-axis)
- It is downward sloping → Law of Demand : As price ↓, quantity demanded ↑



2. Demand Schedule (Table)

Price (Rs)	Qty Demanded	Observation
Rs 10	100	Lowest price → Highest qty
Rs 20	80	↓ price, ↑ qty
Rs 30	60	↓ price, ↑ qty
Rs 40	40	Highest price → Lowest qty

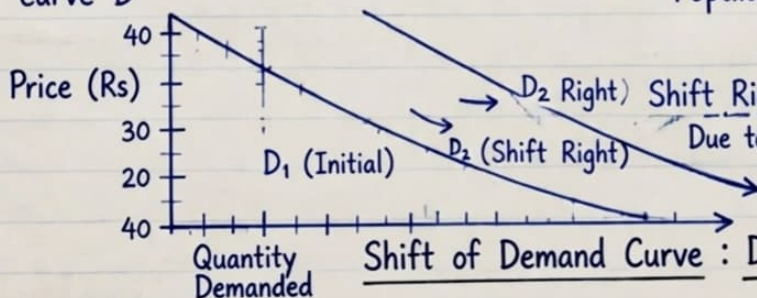
3. Types of Demand

- Individual Demand : Demand by a single consumer for a good at various prices.
- Market Demand : Sum of all individual demands for the good in the market.
- Market demand = $D_1 + D_2 + D_3 + \dots$ (sum of all individuals)

4. Movement vs Shift

• Movement along the Curve

- Caused by: Change in PRICE only
- Movement from A → B on same curve D



• Shift of the Curve

- Caused by: Non-price factors
- Income, Taste & Preferences,
 - Price of related goods,
 - Population, Expectations

Shift of Demand Curve : $D_1 \rightarrow D_2$ (Rightward Shift)

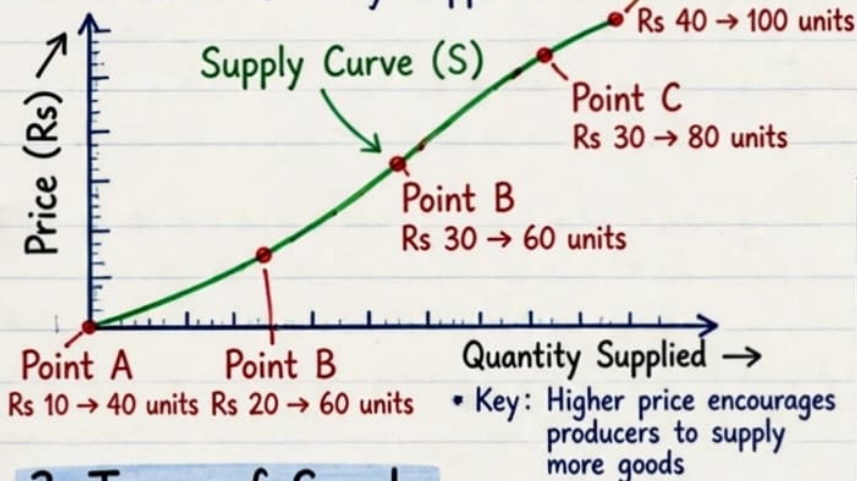
★ Key: Movement = price change → along curve. ★
Shift = non-price change → whole curve shifts. •

Supply Curve and Supply Schedule

Topper Notes | Economics | Class 12 | Handwritten • Neat & Clear

1. Supply Curve

→ Shows relationship between Price & Quantity Supplied



↑ As Price increases
→ Quantity Supplied increases

Positive relationship → upward sloping

2. Supply Schedule (Table)

Price (Rs)	Quantity Supplied (Units)
Rs 10	40
Rs 20	60
Rs 30	80
Rs 40	100

* Table shows how quantity supplied increases as price rises

* This table is plotted as the Supply Curve above

3. Types of Supply

- Individual Supply: The supply of a single seller/producer
- Market Supply: The total supply of all sellers/producers in the market (sum of individual supplies)

4. Movement vs Shift — Key Difference!

• Movement Along the Curve

- Cause: Change in Price only
- Movement Upward: Price ↑ → Quantity Supplied ↑
- Movement Downward: Price ↓ → Quantity Supplied ↓

* Shown as moving along the same Supply Curve (S)

- Shift of the Curve

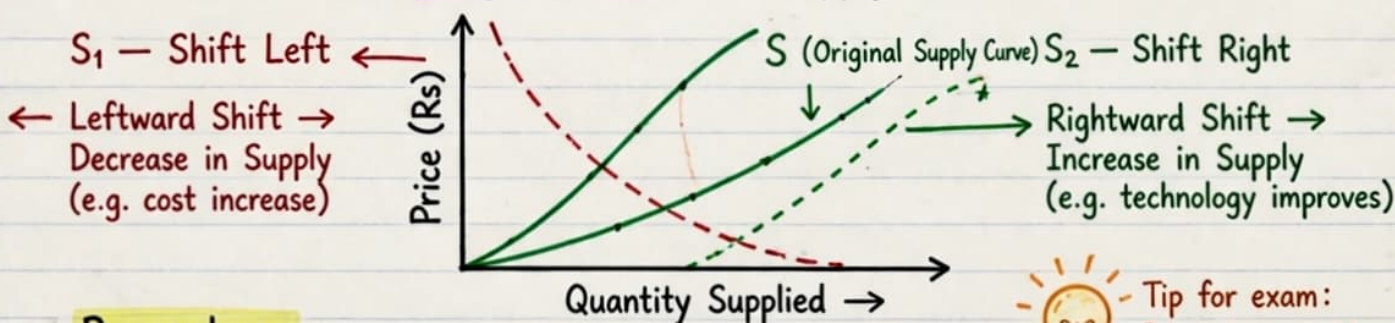
- Cause: Factors OTHER than price change
- Shift Rightward: $S \rightarrow S_2$ (Right →) Increase in Supply

Reason: Technology improvement, lower costs, better methods, subsidy

- ← Shift Leftward: $S \rightarrow S_1$ (Left ←) Decrease in Supply

Reason: Rise in input costs, taxes, fewer producers

Diagram: Shift of Supply Curve



Remember:

- Movement = movement along S curve = price changes
- Shift = entire curve shifts left/right = other factors change



Tip for exam:

Price change = Movement

Other factors = Shift

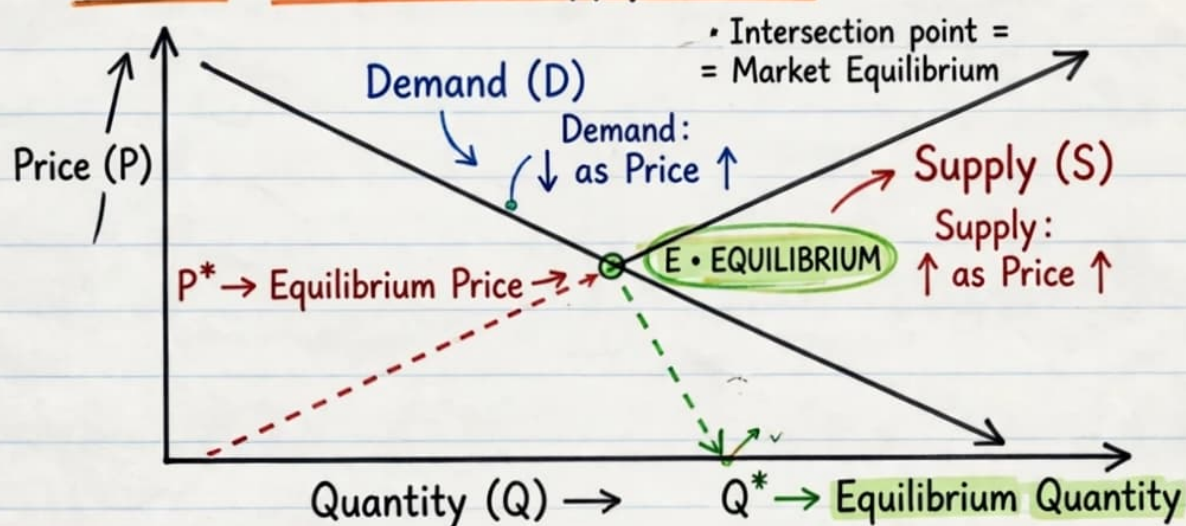
MARKET EQUILIBRIUM

— Where Demand Meets Supply

★ Definition: Equilibrium is the point where
Quantity Demanded = Quantity Supplied.

• No shortage, no surplus — the market is balanced. ✓

★ GRAPH: Demand & Supply Curves

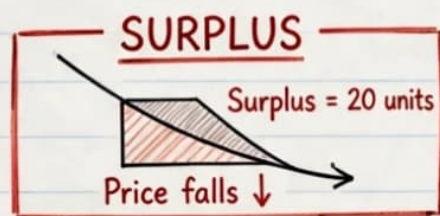


★ THE TABLE: Price, Demand & Supply

Price	Q_d (Demand)	Q_s (Supply)	Result	Effect on Price
30	60	80	Surplus 20 ($Q_s > Q_d$)	Price falls ↓
20	80	80	Equilibrium - Balanced ✓	No change ✓
10	100	40	Shortage 60 ($Q_d > Q_s$)	Price rises ↑

★ KEY CONCEPTS:

- If Price > Equilibrium (e.g. $P = 30$) → Surplus → Price falls until it reaches P^*
- If Price < Equilibrium (e.g. $P = 10$) → Shortage → Price rises until it reaches P^*



★ TOPPER TIP — EXAM READY:

- At $P^* = 20$ and $Q^* = 80$ → Market is in equilibrium. Quantity demanded equals quantity supplied = 80 units. Market is stable; no pressure for price to change.

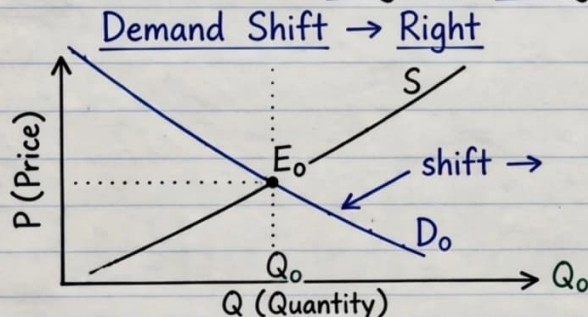
Memory trick: Demand line slopes DOWN, Supply line slopes UP. Where they cross = Equilibrium!

CHANGES IN EQUILIBRIUM

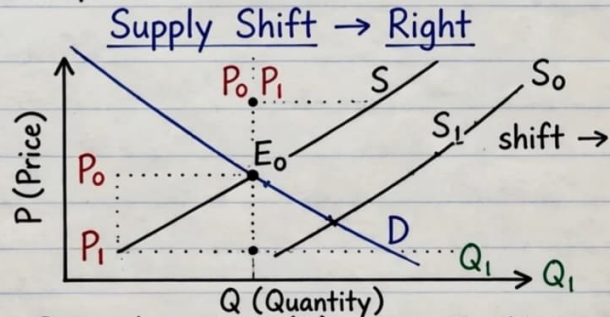
- What causes change? Change in Demand or Change in Supply shifts the curves
→ New Equilibrium

- If Demand increases (curve shifts right) → Price increases," Quantity increases."
- If Demand decreases (shifts left) → Price decreases," Quantity decreases."
- If Supply increases (curve shifts right) → Price decreases," Quantity increases."
- If Supply decreases (shifts left) → Price increases," Quantity decreases."

Diagram: Two graphs side by side



- Supply constant (S) • New Equilibrium:
Price ↑ Quantity ↑
(Price rises, Quantity rises)



- Demand constant (D) • New Equilibrium:
Price ↓ Quantity ↑
(Price falls, Quantity rises)

Quick Revision Formula:

- Equilibrium where $Q_d = Q_s$
- Shift Right = Increase; Shift Left = Decrease

* Key: Red = Price change • Green = Quantity change *