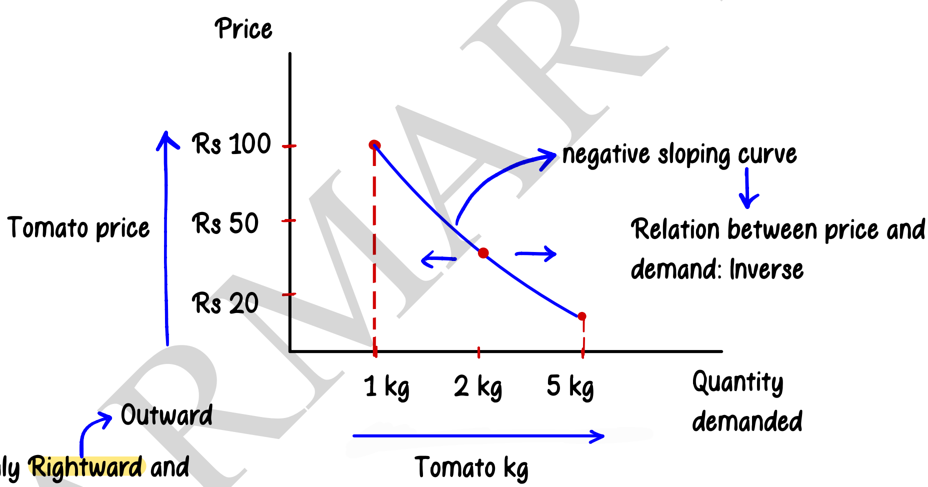
DEMAND AND SUPPLY INFLATION

- **Demand and Supply**

- **Demand** → Satisfaction → Utility
  - ↓ Eagerness to buy something
  - ↘ Affordibility

- **Marginal Utility**: the addition satisfaction or benefit that a consumer derived from buying an additional unit of a commodity/service

- **Demand Curve**: Consumer's side → Affordability

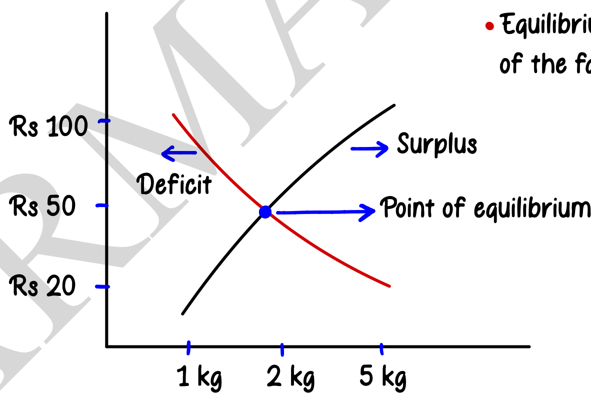


Only Rightward and leftward shift
- Rightward → Outward
- leftward → Inward

- Other factors are constant
  eg: Income

- Supply Curve: from producer's side/profitability

- Things exists in equilibrium



- Equilibrium shifts if any one of the factors shift

- Exceptions
- Giffen goods: non-luxurious goods
  eg: increase in price of wheat
- Veblen goods: luxurious goods
  eg: iPhone, Mercedes

Demand is perfectly inelastic

- price $\propto$ demand

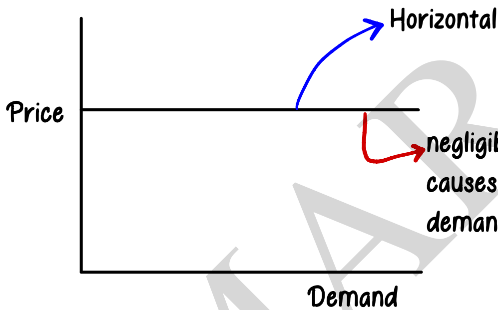
• Price Elasticity

Changes in price affect the changes in demand

Usually –ve

$$e_d = \frac{\%\ \text{change in demand}}{\%\ \text{change in price}}$$

• Perfectly Elastic Demand

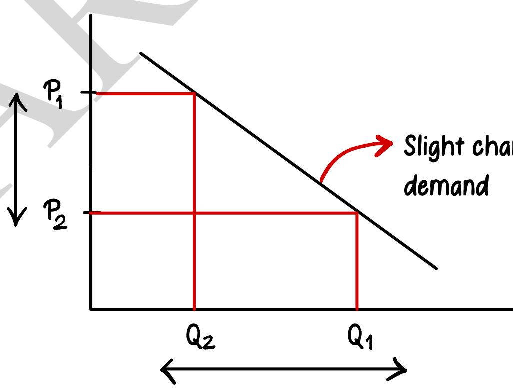


negligible/zero change in price causes major change in demand (infinite)

$e_d = \infty$

• Relatively Elastic Demand

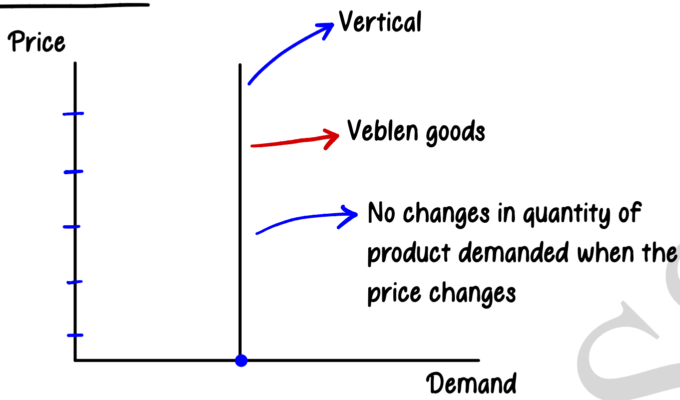
eg: gold



Slight change in price result in high change in demand

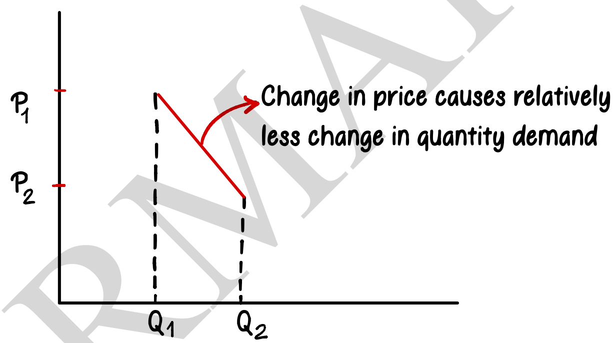
$e_d > 1$

- **Perfectly Inelastic Demand**



$e_d = 0$

- **Relatively Inelastic Demand**



$e_d < 1$

- **Income Elasticity**

Relationship between change in income and demand for certain goods

- Income ↑ Demand ↑ +ve slope
- Income ↓ Demand ↓ +ve slope

- **Cross Price Elasticity**

substitute of X

X ↑ ↓ → Y ↑

Price ↑

Demand ↓

Demand ↑

Shift from product X to Y
due increase in price of X

- People hold money for three purposes
1. Transaction motive
2. Precautionary motive → future → Receipt expenditure
3. Speculative motive

- Father of Modern Economics: Adam Smith

- **Speculative Motive:** by J M Keynes (Father of Economics)

- Speculative demand for money → opportunity cost is involved
- If interest rate is less → People keep more money → Speculative demand high

to keep money with oneself

- Interest rate is high → People will keep less money → Speculative demand less

Liquidity trap → Rate ↓ Speculative demand perfectly elastic

Types of Market

1. Monopoly

- only 1 seller
- pure monopoly is rare
- Entry barrier

eg: Indian railways

2. Oligopoly

Few dominant sellers

Many buyers
No easy entry
eg: Telecom sector, laptop market

3. Monopolistic Competition
Many sellers
Many buyers
Similar but slightly different products
eg: Toothpaste

4. Perfect Competition
Many sellers
Many buyers
selling homogenous products
Free entry and exit
eg: Agricultural products