For almost all applications, we will be analyzing the market for a particular good or service. We will represent the market for this good with an upward sloping supply curve and a downward sloping demand curve.

- The **law of demand** tells us that since price is an obstacle to buyers, lowering price will increase the quantity of the good buyers are willing and able to purchase, all other things held constant. (What other factors enforce the law of demand?)

- The **law of supply** tells us that since price is an inducement to sellers, raising price will increase the quantity of the good sellers are willing and able to bring to market, all other things held constant. That is, for given unit cost of production, higher market price means higher per unit profit (profit per unit = revenue per unit - cost per unit, and revenue per unit is simply market price), and higher profit means suppliers will dedicate more resources to that particular good.

**To analyze changes in a particular market, we go through the following steps:**

1. *Some change in the market* that we wish to examine is specified (something has to get the ball rolling). All of the following are candidates for this initial change:
   - increase/decrease incomes or wealth of consumers of the good
   - increase/decrease the popularity of the good
   - increase/decrease prices of substitutes or complements for the good
   - change in expectations about the future price of the good
   - change in expectations about future income
   - increase/decrease the number of buyers in the market for the good
   - increase/decrease prices or availability of the inputs used to produce the good
   - change in technology used to produce the good (this will almost always be a positive change)
   - increase/decrease prices of other goods that are produced with the same inputs as the good
   - increase/decrease the number of sellers in the market for the good.

   **Notice that a price change for the good is not on the list. This is because price changes are the result of one of the above factors changing. In other words, price changes do not simply happen; they are caused by something other than price changing first.**

2. The *change* (or changes) specified in step 1. **will cause a curve (or curves) in our market to shift.**

   **Important notes about curve shifts: If the supply curve is shifting along a stable demand curve, this means that we are moving along the demand curve and hence we are obeying the law of demand. Likewise, if the demand curve is shifting along a stable supply curve, this means that we are moving along the supply curve and obeying the law of supply.**

3. The **curve shift** in step 2. **causes a price change, which causes a change in quantity** (according to either the law of supply or demand, depending on which curve we’re moving along). So if the supply curve shifts, we’re moving along the demand curve, and must be adhering to the law of demand. In our model, the price and quantity changes are happening simultaneously, but in reality, the chain of causation is price change, then quantity change.
Example: The market for computers.
1. **The change:** There is an *increase in the popularity* of computers.
2. **The shift:** The *demand curve will shift* to the right (demand increases), along a stable supply curve. Note movement along the supply curve from point A to point B below.
3. **The results:** The increase in demand causes a price increase (from $P_0$ to $P_1$) which, according to the law of supply (remember we’re *moving along the supply curve* because it’s the demand curve that is shifting) results in an increase in quantity supplied (from $Q_0$ to $Q_1$).

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**Practice.** One way to practice using the model is to write all the factor changes from the list above on the top of separate pieces of paper (that is, one change per page). Analyze both a positive and negative change in the factor by using words and graphing to do the following:
1. Decide on a positive or negative change in the factor (do each separately)
2. Determine the resulting curve shift
3. Determine the price change and resulting quantity change (which law are you obeying as you shift price and quantity?).