**Demand, Supply and Prices**

**Demand:**

* Demand is the quantity of a good or service that **consumers are willing and able to buy** at different prices
* An **increase in price will reduce demand** because fewer people will be able and willing to buy the product
* A **fall in price will cause an increase in demand** as more people will be able and willing to buy the product
* Other determinants of demand:

1. Income – if incomes increase more people will be able to afford the good and so demand will increase
2. Price of substitute goods – if the price of a substitute falls people will buy this good instead so demand for our good will fall
3. Price of complementary goods – if the price of a complementary product increases less people will buy it so less people will buy our good and demand will fall
4. Tastes and fashions – if there is a successful advertising campaign or the good becomes more popular demand will increase

**Supply:**

* Supply is the quantity of a good or service that **producers are willing and able to supply** at different prices
* An **increase in price will increase supply** because more firms will be able and willing to supply the product as it will be more profitable
* A **decrease in price will decrease supply** because more firms will be less able and willing to supply the product as it will be less profitable
* Other determinants of supply:

1. The costs of production – (raw materials, labour) – if costs increase then businesses will not be able to make as much and supply will fall
2. Level of taxation by government – if tax increases then businesses costs will increase so they will supply less
3. Government subsidies – money given to businesses for producing particular goods, e.g. farmers – if these increase business will have more money and so supply will increase
4. Unexpected events – including environmental disasters, the weather, etc

**Prices of commodities:**

* A commodity is a product that can’t be branded such as oil, tin, copper, sugar, wheat, etc
* Prices of case studies are determined by supply and demand
* An **increase in demand will increase price** as more people want the good so you can charge a higher price for it
* A **decrease in demand will reduce price** – less people want the good so the business can charge a lower price
* An **increase in supply causes a reduction in price** – there is more available so you can charge less
* A **decrease in supply cause an increase in price** – there is less available so you can charge more