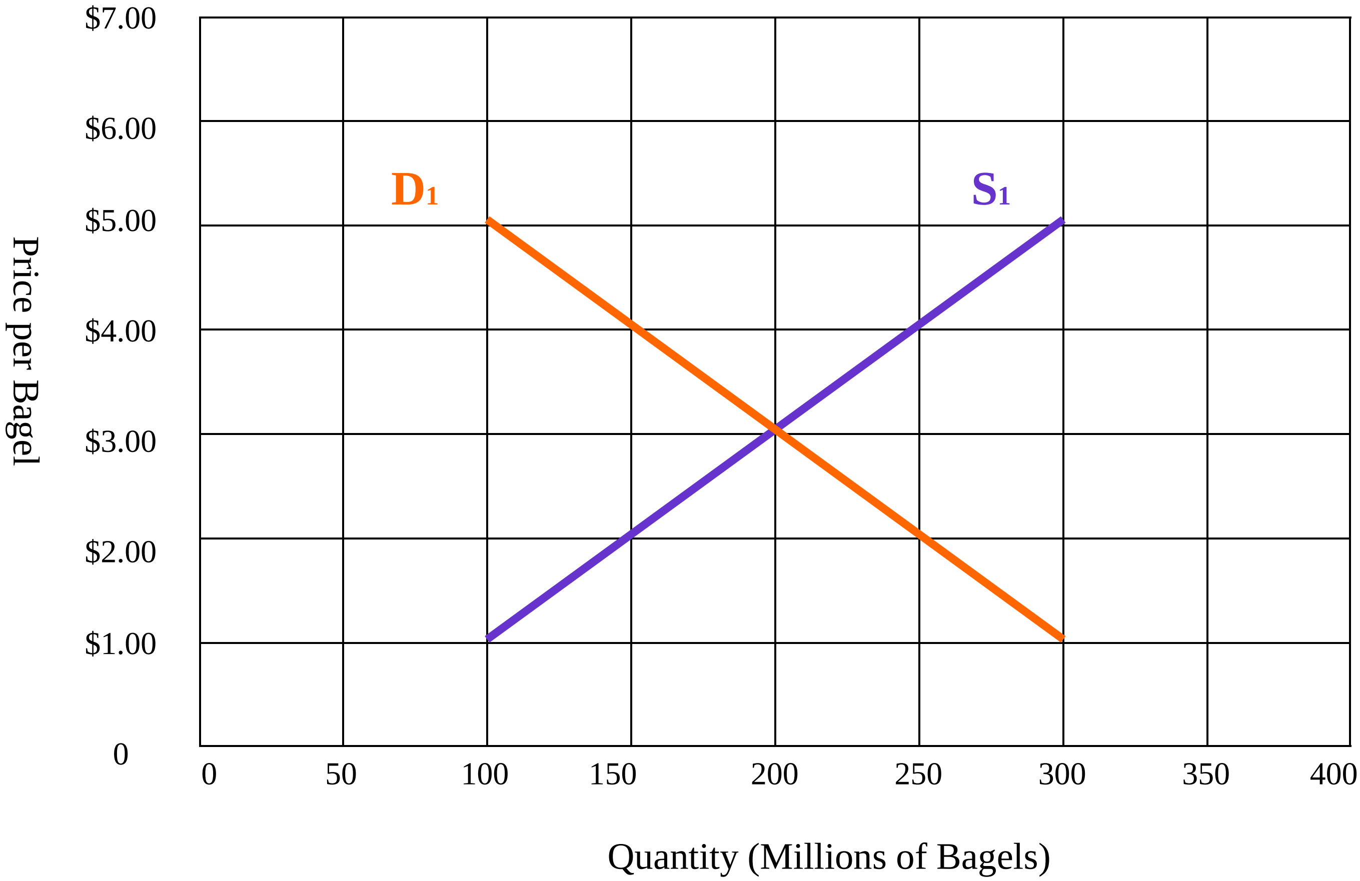
Bagel Example - Responding to Price Changes



A. Over time, competitive market forces will tend to establish an equilibrium price of $ _____________ per bagel and an equilibrium quantity of __________ millions of bagels.

B. If the prevailing price is $4.00 per bagel, buyers would want to buy _________ million bagels and sellers would want to sell __________ million bagels. Under these conditions, there would be a _____________ of ___________ million bagels. What would happen then?

C. If the prevailing price is $2.00 per bagel, buyers would want to buy _________ million bagels and sellers would want to sell __________ million bagels. Under these conditions, there would be a ____________ of ___________ million bagels. What would happen then?

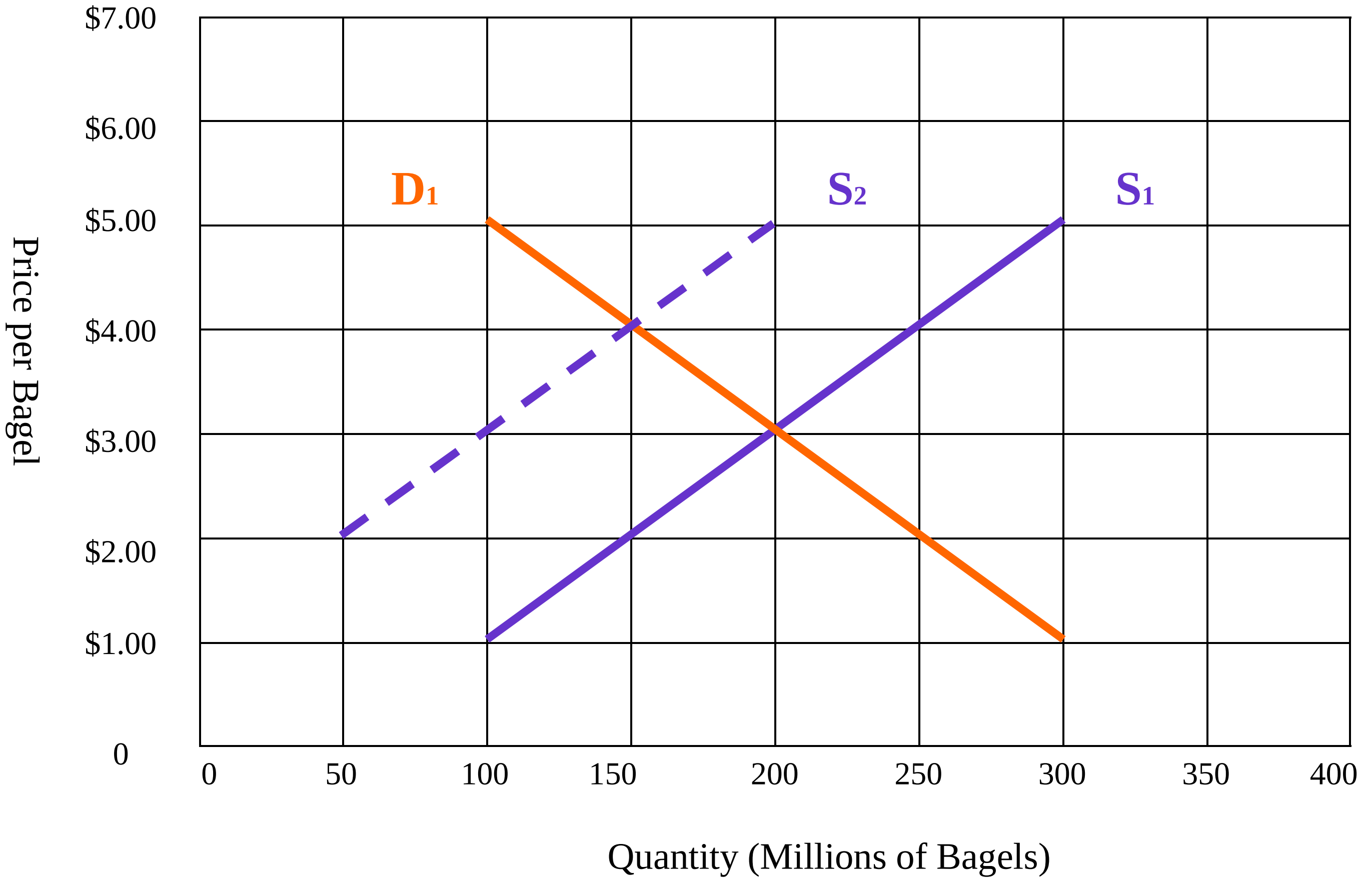
These movements **along the curve** are all due to temporary changes in **price**. Economists call this "change in quantity supplied" or "change in quantity demanded."

In the real world, things that push the price away from equilibrium include:

lack of knowledge
long-term contracts
slow production processes
adding prestige by making something rare
high cost to change the prices (menu effect)
taking a loss on one item to promote another
the willingness of customers to pay

This assumes that underlying conditions stay the same. BUT what if these conditions change?

Bagel Example - Shifts in Supply



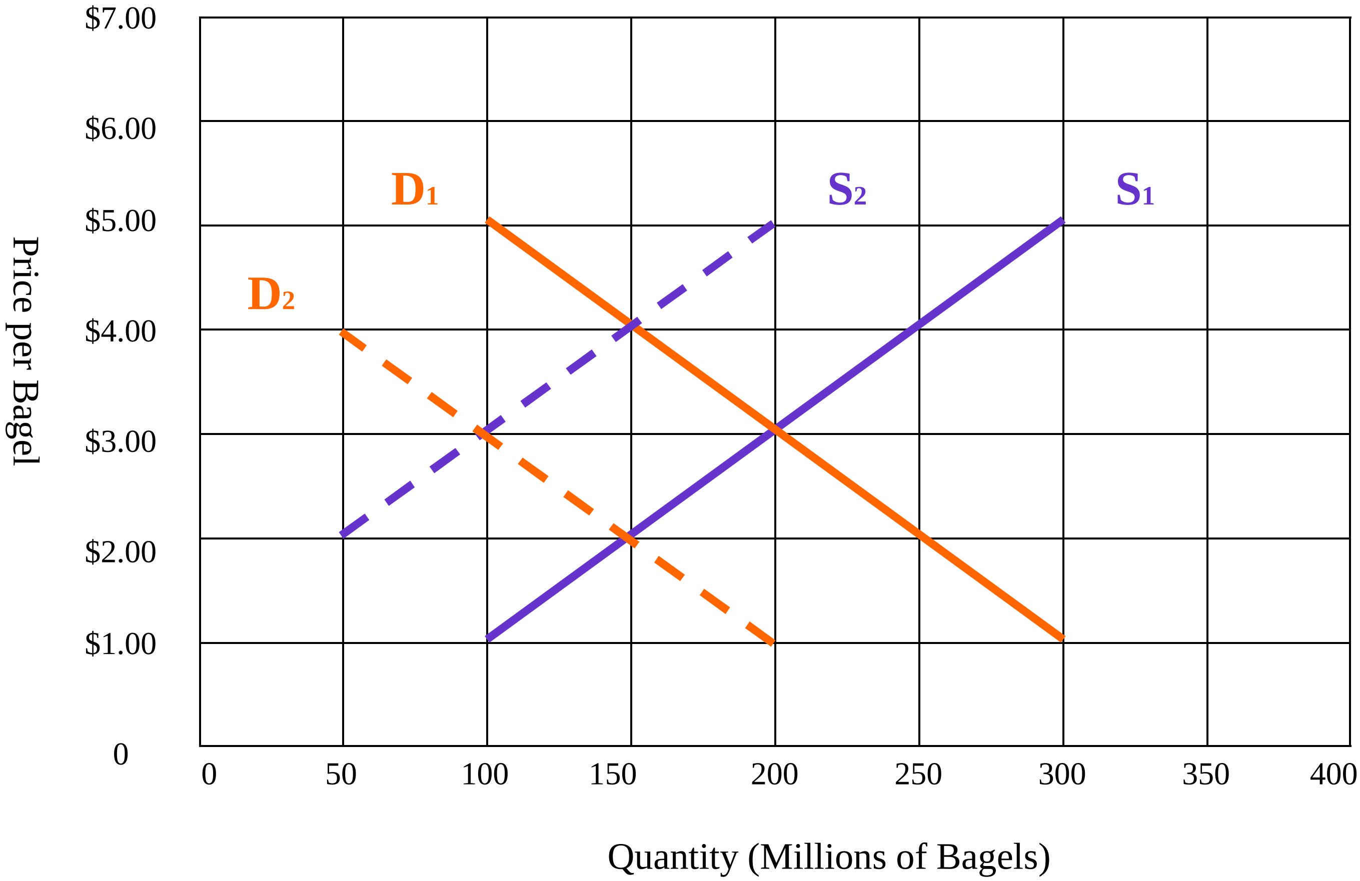
A. Suppose that an increase in the cost of flour causes the suppliers to reconsider how many bagels to supply at a given price as follows:

Changes in the Supply of Bagels	
Price ($ per bagel)	**Quantity Supplied (millions of bagels)**
$2.00	50
$3.00	100
$4.00	150
$5.00	200

The dotted line S2 represents the new supply curve. The high cost of flour means that competitive forces will eventually settle on a new equilibrium price of $ _____________ per bagel and an equilibrium quantity of __________ millions of bagels.

This new equilibrium will last until the underlying conditions in another underlying variable changes. For example, suppose…

Bagel Example - Shifts in Supply & Demand



B. Suppose a sharp drops in people's income because of a national recession causes a change in people's demand for bagels so they reconsider how much they're willing to pay for bagels:

Changes in the Demand for Bagels	
Price ($ per bagel)	**Quantity Supplied (millions of bagels)**
$1.00	200
$2.00	150
$3.00	100
$4.00	50

The dotted line D2 represents the new demand curve. The combined effect of the high cost of flour and the recession means that competitive forces will eventually settle on a new equilibrium price of $ _____________ per bagel and an equilibrium quantity of __________ millions of bagels.

These kinds of **shift of the curves** itself are all due to changes that last longer than simple fluctuations in **price**. Economists call this a "change in supply" or a "change in demand."