

Welcome to EC120 - Lecture 3

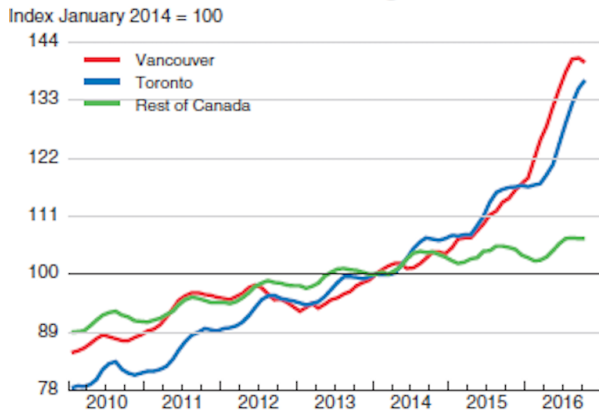
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Canadian Housing Prices

Vancouver and Toronto housing markets are overheating



Source: Teranet and National Bank of Canada, House Price Index; Statistics Canada, Table 026-0013.

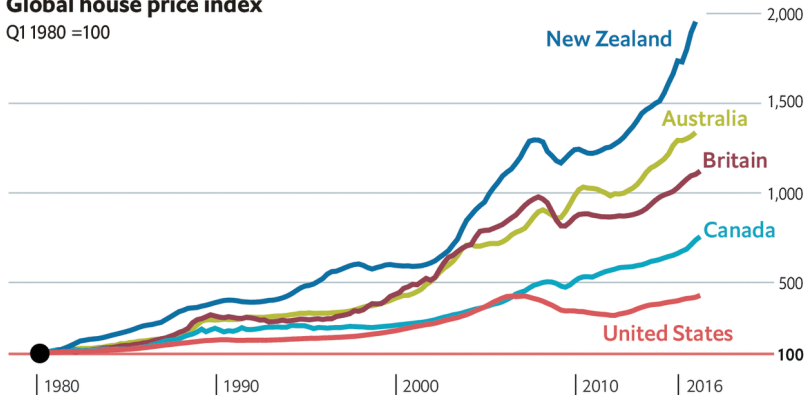
Demand and Supply of Housing

- Demand
 - Incomes, population, preferences
 - Prices of other products (interest rates)
- Supply
 - Input prices, technology, number of suppliers
- Is housing a competitive market?

Canadian Housing Prices

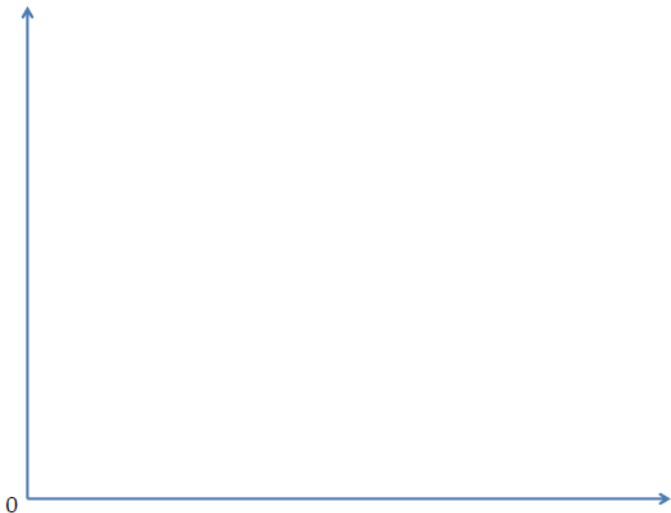
Global house price index

Q1 1980 = 100



Economist.com

The Housing Market



Section A - Tools for Analysis

- Class 1 - Intro/Opp.Cost - Ch.1,2
- Class 2 - Economic Models - Ch. 1,2
- **Class 3 - Understanding Demand and Supply - Ch.3**
- Class 4 - Elasticity - Ch.4
- Class 5 - Government Policy - Ch.5
- Class 6 - Consumer Choice - Ch.6
- Class 7 - Indifference Curves - Ch.6 appendix
- Class 8 - Review for Midterm 1
- **Tentative schedule subject to change**

Administrative Questions

- Register for MyEconLab - free access for two weeks
- Get an iClicker, and register it on MyLearningSpace
- Dynamic Study Modules - on MyEconLab - before class
- Homework Assignments - on MyEconLab - after class
 - Graphing online is tricky - make sure you label your graphs
- Review Quizzes - leading up to tests/exam
 - Quizzes 1 and 2 posted - complete as often as you want

Pre-Lecture Learning Objectives

- By the start of lecture 3, you should be able to:
 - Understand the difference between quantity demanded and demand, and know which factors affect each.
 - Understand the difference between quantity supplied and supply in a competitive market, and know which factors affect each.
 - Understand how equating demand and supply results in an equilibrium price and quantity in a competitive market.

What is a Market?

- Group of buyers and sellers of a good or service
- Organized, or disorganized
- Size of a market depends on the nature of the good
- Key issue for government policy - Canadian Competition Bureau

The Competition Bureau, as an independent law enforcement agency, ensures that Canadian businesses and consumers prosper in a competitive and innovative marketplace.

What is Competition?

- Competitive markets require that there are many buyers, with free choice
 - 1 Homogeneous products - no brand differentiation
 - 2 Numerous buyers and sellers
- If there is only one seller - monopoly
- If there are a few sellers - oligopoly
- Perfect competition is rare - but a useful starting point

Terminology Around Demand

- Quantity Demanded
 - Amount of a good buyers are willing and able to purchase at a given price
- Law of Demand
 - As price rises, quantity demanded falls
- Demand Schedule
 - Table showing the relationship between price and quantity demanded
- Demand Curve
 - Graph of the demand schedule
- Market Demand versus Individual Demand
 - Market demand adds up individual demand
 - Summing individual demand curves horizontally

Shifting Quantity Demanded

- Key difference - changes in demand, or in quantity demanded
- When a price of a good changes - quantity demanded changes (not demand)
- Any other change - is a shift in a demand curve

Demand Curve Shifters

- Income
 - Rising income increases demand - **normal good**
 - Rising income reduces demand - **inferior good**
- Prices of Related Goods
 - Increase price X increases demand for Y - **substitutes**
 - Increase price X reduces demand for Y - **complements**
- Tastes - difficult to predict, but may be measured
- Expectations - future prices of a durable good
- Number of Buyers - affects market demand

Concepts Related to Supply

- Quantity Supplied
 - Amount of a good that sellers are willing and able to sell
- Law of Supply
 - As price rises, supply of a good rises
- Supply Schedule
 - Table showing the relationship between price and quantity supplied
- Supply Curve
 - Graph of the supply schedule
- Market Supply versus Individual Supply
 - Market supply adds individual supply
 - Sum individual supply curves horizontally

Shifting Quantity Supplied

- Key difference - changes in supply, or in quantity supplied
- When a price of a good changes - quantity supplied changes (not supply)
- Any other change - is a shift in a supply curve

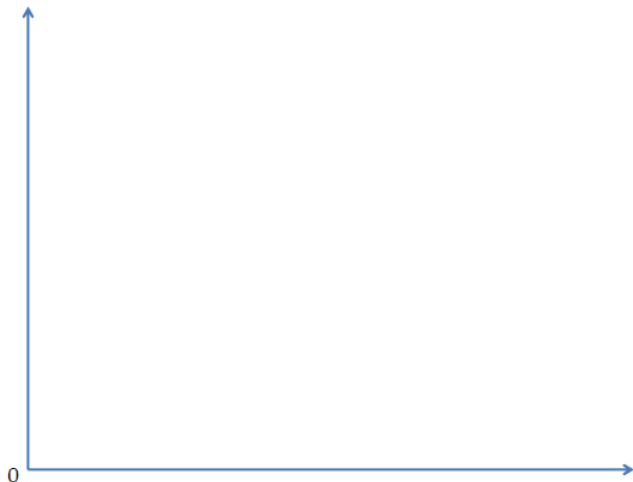
Supply Curve Shifters

- Input Prices - wages, supplies, capital cost
- Technology - ability to produce with fewer inputs
- Expectations - future prices of a durable good
- Number of Sellers - affects market supply

Intersection of Supply and Demand

- Equilibrium - intersection of supply and demand
- Equilibrium price - price that balances supply and demand
- Equilibrium quantity - quantity supplied and demanded at the equilibrium price
- Excess supply - when quantity supplied is greater than quantity demanded
- Excess demand - when quantity demanded is greater than quantity supplied

Supply and Demand



Analyzing Changes in Equilibrium

- 1 Which curve shifts - supply, demand or both?
- 2 Which direction do they shift?
- 3 Draw the graph, and note the change in quantity and price.
 - Strong recommendation - on exams, take the time to draw the graphs
- 4 Work with many examples

How Do We Ensure Competitive Markets?

- Cases against bid-rigging/price-fixing
 - Gasoline retailers, autoparts companies, shipping companies
 - 2013 - Hershey, Nestle, Mars, etc.
- Investigation of pricing by Visa and Mastercard
- Cases of false advertising
 - Rogers, Kia, Hyundai
- Mergers are evaluated by the Competition Bureau for their effects on competition

Lecture Review

- By the end of lecture 3, you should be able to:
 - Assess how changes to economic factors in a competitive market would affect demand, supply, or both.
 - Understand how changes in demand or supply affect equilibrium price and quantity.
 - Determine the equilibrium price and quantity in a competitive market using both graphical and algebraic solution methods.
 - Understand whether supply and demand analysis is appropriate or not, based on the underlying economic situation.

Before Next Class

- Register your clicker and for MyEconLab
 - See the online syllabus for details
- Read Ch.4; complete the Dynamic Study Module: Elasticity
- By the start of lecture 4, you should be able to:
 - 1 Define and calculate price elasticity of demand, price elasticity of supply, income elasticity of demand, and cross-price elasticity of demand.
 - 2 Understand some of the common factors that will affect each of these elasticities for different products and services.

Question to Consider

- Why are food prices very volatile?
 - What is the elasticity of demand for different types of food?
 - What is the elasticity of supply for different types of food?
 - What do your answers imply regarding whether shifts in demand or supply affect price or quantity?

 - How can government policy affect the market for food?
 - Can agri-business exploit this volatility?