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ACADEMIC & STUDY

ACADEMIC / UNIVERSITY-LEVEL

Supply and Demand, Actually Understood

In ten days, go from "I've heard of supply and demand" to being able to read, draw, and explain a market graph for any real situation.

10-day guide · 6 chapters · Self-Directed Learning Framework

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ABOUT THIS GUIDE

This guide was built with the Self-Directed Learning Framework (SDLF): every chapter gives you a short starting action, the one idea you actually need, a fully worked example, a checklist, and exercises — no filler, and nothing to memorise that you don't also understand.

Work through the chapters in order, one sitting at a time; each takes 30–40 minutes. One market — coffee — runs through the whole guide, so the numbers in Chapter 1 are the same numbers you analyse in Chapter 6. Keep paper and a pencil nearby: almost every chapter asks you to draw.

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CHAPTER 1 OF 6 · DAY 1–2 · 30 MIN

What a Market Actually Is, and Why We Draw It as a Graph

> **Outcome:** "I can explain what economists mean by a market, and why price goes on the vertical axis."

Micro-start (under 12 minutes)

Write down the last three things you bought and, next to each, the price you paid and one thing that would have stopped you buying it. You've just described three markets from the demand side.

The minimum you need to know

In economics a market isn't a place — it's the set of all buyers and sellers of one particular good, wherever they are. The model tracks exactly two behaviours: how much buyers want to buy at each price, and how much sellers want to sell at each price. Because both depend on price, price is the variable we read across from — which is why it sits on the vertical axis and quantity on the horizontal, even though price is what economists treat as doing the causing. That's a historical convention rather than a logical one, and noticing it early prevents a lot of confusion later.

Worked example: the coffee market as a table, before it's a graph

In one city, at €6 a cup buyers want 1,000 cups a day and sellers want to supply 9,000. At €5: buyers 3,000, sellers 7,000. At €4: buyers 5,000, sellers 5,000. At €3: buyers 7,000, sellers 3,000. At €2: buyers 9,000, sellers 1,000. Two columns of numbers moving in opposite directions as price falls. Plot each column as a line, with price up the side and quantity along the bottom, and you have the demand curve and the supply curve — nothing more mysterious than that table, drawn as two lines. Keep this table; it runs through the whole guide.

Checklist

- ☐ A market defined as buyers and sellers of one good, not a location
- ☐ The two behaviours identified: quantity demanded and quantity supplied, each at a given price
- ☐ Price on the vertical axis, quantity on the horizontal — and you know this is convention
- ☐ A price–quantity table written out before any curve is drawn
- ☐ The two columns confirmed to move in opposite directions as price falls
- ☐ Each curve recognised as one column of that table, plotted

Exercises

1. Write your own price–quantity table for a good you buy regularly, with four price levels and your own honest quantities.
2. Plot your demand column as a curve on paper.
3. Explain out loud, in one sentence, why the quantity you'd buy changes with price.

CHAPTER 2 OF 6 · DAY 3 · 30 MIN

The Demand Curve: Why It Slopes Down

> **Outcome:** "I can explain the two reasons demand curves slope downward, with an example of each."

Micro-start (under 12 minutes)

Take the demand column you wrote in Chapter 1 and, for the lowest price, ask yourself why you'd buy more. Write the reason in your own words before you read the textbook one below.

The minimum you need to know

Demand slopes downward for two distinct reasons, and exams reward knowing them separately. The **substitution effect**: when a good gets more expensive relative to its alternatives, some buyers switch to those alternatives. The **income effect**: when a good gets more expensive, your money buys less overall, so you're effectively poorer and buy less of most things, including this one. Both push in the same direction, which is why the curve is reliable — but they are different mechanisms with different requirements.

Worked example: coffee at €6 versus €2

At €6, some regular buyers switch to tea or start making coffee at home — that's substitution, and it's usually the larger effect for a good with close alternatives. Separately, a household buying ten coffees a week finds that at €6 those coffees eat a noticeable share of the weekly budget, leaving less for everything else; they cut back partly because they're effectively poorer — that's the income effect. Note what each one requires: substitution needs an alternative to exist, the income effect needs the good to be a meaningful share of spending. For table salt — cheap, and with no real substitute — both effects are tiny, which is exactly why salt demand barely responds to price.

Checklist

- ☐ Substitution effect stated as switching to alternatives when relative price rises
- ☐ Income effect stated as reduced real purchasing power
- ☐ The two effects described separately, not merged into "people buy less"
- ☐ An example given where substitution dominates (a good with close alternatives)
- ☐ An example given where both effects are weak (cheap good, no substitute)
- ☐ The downward slope traced back to both effects acting in the same direction

Exercises

1. Name three goods with close substitutes and three with almost none.
2. For one good from each list, predict whether demand responds strongly or weakly to a price rise, and say why.
3. Explain the difference between the substitution and income effects in two sentences.

CHAPTER 3 OF 6 · DAY 4 · 30 MIN

The Supply Curve: Why It Slopes Up

> **Outcome:** "I can explain why sellers offer more at higher prices, using marginal cost."

Micro-start (under 12 minutes)

Imagine you sell homemade cakes. Write down how many you'd bake per week at €5, €15 and €40 each — and next to each number, what would actually limit you.

The minimum you need to know

Supply slopes upward because producing more usually costs more per unit. The key concept is **marginal cost**: the cost of producing one additional unit. A baker with one oven makes the first twenty cakes cheaply; the twenty-first requires a second shift, overtime, or a rented oven, so it costs more. A seller produces an extra unit only when the price covers that unit's marginal cost — so as price rises, units that weren't worth making become worth making. Higher prices also draw entirely new sellers into the market, which adds to the same effect for a separate reason.

Worked example: the cake seller's decision, unit by unit

The first ten cakes cost €4 each in ingredients and time — at a price of €5 they're all worth making. Cakes eleven to twenty require working evenings, which the baker values at an extra €6 per cake, so their marginal cost is €10: not worth making at €5, clearly worth it at €15. Cakes twenty-one to thirty require renting commercial oven time at €25 a cake all-in, so they appear only at prices above €25. The supply curve is simply this ladder of marginal costs, read as a line: at each price, the seller produces every unit whose marginal cost that price covers.

Checklist

- ☐ Marginal cost defined as the cost of one more unit
- ☐ Rising marginal cost linked to the upward slope, not just "sellers like money"
- ☐ A concrete cost ladder written out for at least three output levels
- ☐ The rule stated: produce a unit when the price covers its marginal cost
- ☐ New sellers entering at higher prices identified as a second, separate reason
- ☐ The supply curve recognised as that marginal-cost ladder plotted as a line

Exercises

1. Write a three-step marginal-cost ladder for a product or service you could plausibly sell.
2. Mark which units you'd produce at two different prices.
3. Explain in one sentence why a producer would ever refuse to make an extra sale.

CHAPTER 4 OF 6 · DAY 5–6 · 35 MIN

Equilibrium: Where the Market "Settles"

> **Outcome:** "I can find the equilibrium price and quantity on a graph and explain what happens at any other price."

Micro-start (under 12 minutes)

Go back to the Chapter 1 coffee table and find the price where the two columns are equal. You've found equilibrium before drawing anything.

The minimum you need to know

Equilibrium is the single price at which quantity demanded equals quantity supplied — the point where the two curves cross. It matters less as a fact than as a mechanism: at any higher price there's a **surplus** (sellers have unsold stock, and cutting the price is the only way to move it), and at any lower price there's a **shortage** (buyers compete for scarce units, and sellers discover they can charge more). The market moves toward equilibrium because both surplus and shortage create pressure on price in the direction of the crossing point — not because anyone plans it.

Worked example: coffee at €5, €3 and €4

At €5, buyers want 3,000 cups and sellers offer 7,000 — a surplus of 4,000 cups going stale. Sellers discount to clear stock and the price falls. At €3, buyers want 7,000 and sellers offer only 3,000 — a shortage of 4,000; queues form, and sellers realise they can charge more, so the price rises. At €4, both are 5,000: nothing pushes the price in either direction, and the market sits there until something changes one of the two curves — which is Chapter 5's subject. Note what equilibrium is not: it isn't a fair price, or a good price, just a resting point.

Checklist

- ☐ Equilibrium identified as quantity demanded = quantity supplied
- ☐ The crossing point read off both the table and the graph
- ☐ Surplus defined and located above the equilibrium price
- ☐ Shortage defined and located below the equilibrium price
- ☐ Pressure direction stated for each case (surplus → price falls, shortage → price rises)
- ☐ Equilibrium described as a resting point, not a fair or optimal price

Exercises

1. Using the coffee table, calculate the surplus or shortage at €6 and at €2.
2. Draw the graph and label equilibrium, one surplus and one shortage.
3. Explain in two sentences why a market with a shortage doesn't simply stay there.

CHAPTER 5 OF 6 · DAY 7–8 · 40 MIN

Shifts vs. Movements: The Distinction Everyone Mixes Up

> **Outcome:** "I can correctly tell whether a real event shifts a curve or just moves a point along it — and predict what happens to price and quantity."

Micro-start (under 12 minutes)

Write two labels on separate index cards (or two lines on paper): "Movement along the curve" and "Shift of the curve." You'll sort real events into these two piles for the rest of this chapter — the physical sorting is what makes the distinction stick.

The minimum you need to know

A **movement along** a curve happens only when the good's own price changes — nothing else. A **shift of** the entire curve happens when something *other than* the good's own price changes: buyer income, the price of a related good, input costs, technology, weather, expectations, or the number of buyers or sellers in the market. The test is always the same question: did the good's own price change, or did something around it change?

Worked example: the coffee market, two events in sequence

Event 1 — incomes rise, and more people buy coffee. Income isn't the price of coffee, so this is a *shift*: the entire demand curve moves right, meaning more coffee is demanded at every price, not just at the old price. Graphed against the unchanged supply curve, the new equilibrium has both a higher price and a higher quantity. **Event 2 — roasters respond to that higher price by producing more.** This is not a new shift: the supply curve hasn't moved, roasters are simply producing more *because the price rose*. That's a *movement along* the existing supply curve, to a new point further up and to the right on the same line.

Checklist

- ☐ Identify exactly what changed in the scenario
- ☐ Ask: did the good's own price change, or something else?
- ☐ If something else changed — name which curve it affects: demand, supply, or both
- ☐ Determine direction: does the curve shift left (decrease) or right (increase)?
- ☐ Predict the new equilibrium using the four basic rules (demand up → price up, quantity up; demand down → both down; supply up → price down, quantity up; supply down → price up, quantity down)
- ☐ If a shift is followed by a price reaction, label that second step a movement, not a second shift
- ☐ Sketch the graph and label old and new equilibrium points

Exercises

1. Classify each as a demand shift, supply shift, both, or a movement only: (a) a new coffee shop opens nearby, (b) a frost destroys part of the coffee harvest, (c) a coffee shop runs a weekend discount, (d) tea becomes more expensive.
2. Draw the graph for the two-event coffee example above, labelling the shift and the movement separately.
3. Pick one real news headline involving a market you know, and predict the price and quantity direction using the checklist.

CHAPTER 6 OF 6 · DAY 9–10 · 35 MIN

Applying the Model to Real Events

> **Outcome:** "I can take a real news event and predict its effect on price and quantity, with a labelled graph."

Micro-start (under 12 minutes)

Find one news headline about a price changing — energy, housing, food, tickets, anything — and write it at the top of a blank page.

The minimum you need to know

Real events get the same four-step routine every time: (1) name the market precisely, (2) decide which curve the event touches and in which direction, (3) read off the new equilibrium, (4) sanity-check against the four rules. Two traps account for most wrong answers. The first is analysing a market that's too broad — "the food market" is not one market; "eggs in Belgium this month" is. The second is a shift in both curves at once: when both move, either price or quantity becomes indeterminate without knowing which shift is larger, and the correct answer says exactly that rather than guessing.

Worked example: "Avian flu outbreak culls a fifth of laying hens"

Step 1: the market is eggs, national, over the coming months. Step 2: fewer hens means less supply at every price — the supply curve shifts left; demand is untouched, since people's taste for eggs hasn't changed. Step 3: with supply left and demand fixed, the curves cross higher and further left — price rises, quantity falls. Step 4: check against the rules — supply down → price up, quantity down. Consistent. Now a two-curve variant: the same outbreak *plus* a widely reported study saying eggs are healthier than thought. Supply shifts left, demand shifts right, and both push price up — but quantity is now indeterminate, because the two shifts move it in opposite directions. The honest answer names the indeterminacy instead of picking one.

Checklist

- ☐ Market named precisely: which good, which place, which period
- ☐ Event classified as affecting demand, supply, or both
- ☐ Direction of each shift stated with a reason
- ☐ New equilibrium read off the graph — both price and quantity
- ☐ Result checked against the four basic rules
- ☐ Two-curve cases flagged as indeterminate where they genuinely are
- ☐ Graph drawn with old and new curves and both equilibria labelled

Exercises

1. Run the four-step routine on your chosen headline and draw the graph.
2. Find a second headline where both curves plausibly move, and identify which variable is indeterminate.
3. Explain your first analysis out loud to someone in under two minutes, using the graph.

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