



higher education
& training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA



GAUTENG
Community Education and Training
CET COLLEGE

Economics and Management Sciences: EMSC4

LESSON 10

US 13998

Lesson 10

1. Discussing the principles of supply and demand.
2. Outlining factors impacting on supply and demand.
3. Explaining the link between price and supply and demand.
4. Explaining price determination.

TOPIC: DEMONSTRATE AN UNDERSTANDING OF THE PRINCIPLES OF SUPPLY AND DEMAND

At the end of this lesson you must be able to:

1. Define and explain supply and demand
2. Name and explain factors impacting on supply and demand

3. Explain the link between price and supply and demand

4. Explain price determination

PRINCIPLES OF DEMAND AND SUPPLY

1.1 Demand: is the number (quantity) of goods and services that consumers (buyers) are willing to buy at a certain price.

Supply: is the number of goods and services that producers (sellers) are willing to sell at a certain price.

Competition: when there are more than one business or factory supplying the same goods and services (especially within the same area)

1.2. The law of demand -states that when prices are high demand becomes low and when prices are low demand becomes high. This mean that customers prefer to buy goods and services at a cheaper price and they buy less of a product when the price is expensive.

The law of supply-states that when the prices are high suppliers will supply more of a good and when the price is low the suppliers will supply less of a product or service. This mean that producers (suppliers) are willing to offer more of their goods and services at an expensive price and they offer less at a cheaper price.

2. FACTORS IMPACTING (AFFECTING) SUPPLY AND DEMAND

Supply

- *Change in season
- *Change in customer behaviour
- *Cost of production
- *Technology
- *Transport cost (logistics)
- *Availability of substitute products

Demand

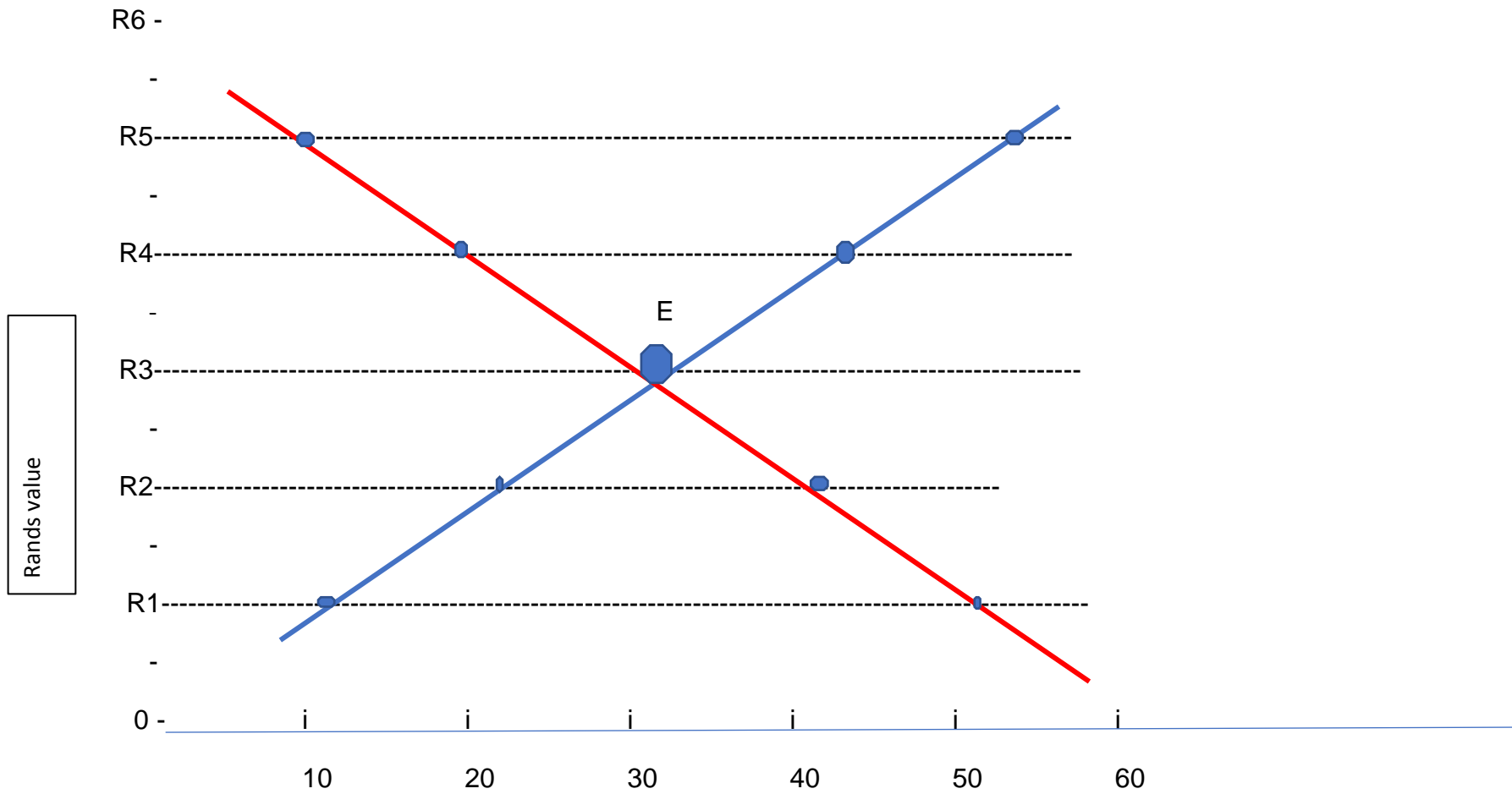
- *Price
- *Change in consumer income
- *Change in tastes and preferences
- *Change in technology
- *Advertising


3 THE LINK BETWEEN PRICE AND SUPPLY AND DEMAND.

*Goods and services are exchanged at a particular price in the market that both consumers (buyers) and suppliers (sellers) are willing to accept when trading, this link is called an Equilibrium price.

*The consumer behaviour is based on the price of products, when price is low demand is high and price is high demand is low.

*Cost of production is based on the expenses incurred to manufacture a product by suppliers(producers).they cannot sell below that price(cost price), they will always sell at a final price that includes profit. When the price is low supply is low and when the price is high supply is high.



Supply curve 



Demand curve

Price	Quantity demanded	Quantity supplied
R1	50	10
R2	40	20
R3	30	30
R4	20	40
R5	10	50

Demand and supply curve

The curve above indicates the relationship between price, demand and supply and the equilibrium point.

*Point E in the graph is where supply and demand are at equilibrium, when the price of a good or service is R3 quantity demanded is 30 and quantity supplied is 30.

*At a lower price (R1) the demand is high (50) and when the price is high (R5) demand is low (10)

*At a lower price (R1) the supply is low (10) and when the price is high (R5) supply is high (50)

*The demand curve has a negative slope and a supply curve has a positive slope

*The demand curve slopes downwards from left to right

*The supply curve slopes upwards from left to right

4.Factors to be considered when pricing a product

*Production cost-these are material cost (material use in producing products) ,labour costs (payments of workers producing products).

*Overheads-these are expenses incurred in the production process.They may include water and electricity, administration expenses etc.

*Marketing expenses-these include money paid to advertisers to advertise the product, packaging of the product to a specific requirement is also paid for

Activity 10

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|---|------|
| 1. Define the term supply. | (2) |
| 2. Give three (3) factors that affect demand. | (3) |
| 3. Explain what production costs are and give one example of production cost. | (4) |
| 4. What is an equilibrium price? | (2) |
| 5. Define the law of supply. | (2) |
| Total | (13) |