

CONCEPT NOTES

Demand, Supply and Market Equilibrium

Microeconomics made easy

SUBJECT

Economics

CLASS / COURSE

Class 11–12 · CBSE / BBA

PREPARED BY

Subject Teacher

How to Use These Notes

These notes cover the theory of demand, supply, elasticity and price determination. Each chapter starts with a short overview, then lists the key definitions, explains the core concepts with examples, and ends with practice questions. Answers to the multiple-choice questions are at the end.

Study plan

- Read the overview and definitions first
- Work through the solved examples without looking at the answers
- Attempt the practice questions in timed conditions
- Revise using the summary sheet the night before the exam

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Unit 1: Theory of Demand

Demand is the quantity of a good that consumers are willing and able to buy at different prices during a period of time. The law of demand states that, other things remaining the same, quantity demanded falls as price rises.

Key Definitions

Term	Meaning
Demand	Quantity a consumer is willing and able to buy at a price
Demand schedule	A table of prices and quantities demanded
Demand curve	Graph of the demand schedule, normally sloping downward
Normal good	Demand rises when income rises
Inferior good	Demand falls when income rises

Determinants of Demand

Demand depends on the price of the good, the prices of related goods, income, tastes and expectations. A change in price moves the consumer along the curve; a change in any other factor shifts the whole curve.

- Price of substitutes (tea and coffee)
- Price of complements (car and petrol)
- Income of the consumer
- Tastes and preferences

Why the Demand Curve Slopes Down

A lower price makes the good cheaper relative to substitutes (substitution effect) and raises real income (income effect). New buyers also enter the market.

Solved Examples

Q1. Distinguish movement along and shift of the demand curve.

A movement is caused by a change in the good's own price; a shift is caused by a change in income, tastes or related prices.

Q2. The price of tea rises. What happens to the demand for coffee?

Coffee is a substitute, so its demand rises and the coffee demand curve shifts right.

Exam tip

Diagrams carry marks: label axes (price on Y, quantity on X), curves (D , D_1) and show the direction of shift with an arrow.

Practice Questions

A. Multiple choice

1. Law of demand shows a relation between price and quantity that is
(a) Direct (b) Inverse (c) Constant (d) Unrelated
2. A rise in income for an inferior good leads to
(a) Rise in demand (b) Fall in demand (c) No change (d) Movement along curve
3. Tea and sugar are
(a) Substitutes (b) Complements (c) Inferior goods (d) Giffen goods
4. A change in own price causes
(a) Shift of curve (b) Movement along curve (c) Both (d) Neither

B. Short answer

1. State the law of demand.
2. Give two examples each of substitutes and complements.
3. What is an inferior good?

C. Long answer

4. Explain the determinants of demand with diagrams.
5. Distinguish between change in quantity demanded and change in demand with diagrams.

Unit 2: Theory of Supply

Supply is the quantity producers are willing to sell at different prices. The law of supply states that, other things being equal, quantity supplied rises as price rises because higher prices make production more profitable.

Key Definitions

Term	Meaning
Supply	Quantity a producer is willing to sell at a price
Supply curve	Graph showing quantity supplied at each price, normally upward-sloping
Input price	Cost of factors such as labour and raw materials
Technology	Methods of production that affect cost

Determinants of Supply

Supply depends on the good's price, input prices, technology, prices of other goods the firm can produce, government taxes and subsidies, and the number of firms.

- A subsidy shifts supply to the right
- A tax shifts supply to the left
- Better technology lowers cost and raises supply

Solved Examples

Q1. What happens to the supply of wheat when fertiliser prices rise?

Cost of production rises, so supply falls and the curve shifts left.

Q2. Why does supply rise with price?

At higher prices, producers earn more per unit and can cover the higher cost of extra output.

Exam tip

Keep demand and supply diagrams separate unless the question asks about equilibrium.

Practice Questions

A. Multiple choice

1. Supply curve normally slopes
(a) Downward (b) Upward (c) Horizontal (d) Vertical
2. An improvement in technology shifts supply to the
(a) Left (b) Right (c) No shift (d) Upward along
3. A unit tax on a product will
(a) Increase supply (b) Decrease supply (c) Not affect supply (d) Increase demand
4. Law of supply relates price and quantity
(a) Inversely (b) Directly (c) Not at all (d) Randomly

B. Short answer

6. State the law of supply.
7. Name three determinants of supply.
8. What is the effect of a subsidy on supply?

C. Long answer

9. Explain the determinants of supply with diagrams.
10. Distinguish between movement along and shift of the supply curve.

Unit 3: Market Equilibrium and Elasticity

Equilibrium is reached where quantity demanded equals quantity supplied. Elasticity measures how strongly quantity responds to a change in price, which helps explain how markets react to shocks.

Key Definitions

Term	Meaning
Equilibrium price	Price at which quantity demanded equals quantity supplied
Excess demand	Quantity demanded exceeds supply at a price below equilibrium
Excess supply	Supply exceeds demand at a price above equilibrium
Price elasticity of demand	Percentage change in quantity ÷ percentage change in price

How Equilibrium Changes

If demand increases with supply unchanged, both equilibrium price and quantity rise. If supply increases with demand unchanged, price falls and quantity rises.

Elasticity

Demand is elastic when $|e| > 1$ (luxuries, goods with many substitutes) and inelastic when $|e| < 1$ (necessities like salt). Total expenditure falls when price rises for elastic goods and rises for inelastic goods.

Important Formulas

Quantity	Formula	Note
Price elasticity	$e = (\% \Delta Q) / (\% \Delta P)$	negative sign usually ignored
Percentage method	$e = (\Delta Q / Q) \div (\Delta P / P)$	use original values
Equilibrium	$Q_d = Q_s$	solve the two equations

Solved Examples

Q1. Price rises from ₹10 to ₹12 and quantity falls from 100 to 80 units. Find elasticity.

$\% \Delta Q = -20\%$, $\% \Delta P = 20\%$, so $e = -1$ (unitary elastic).

Q2. What happens to price if demand and supply both rise equally?

Quantity rises; price remains unchanged.

Exam tip

In numericals, always state the formula, substitute with signs and interpret the answer in words (elastic / inelastic).

Practice Questions

A. Multiple choice

1. At equilibrium

- (a) $D > S$ (b) $D < S$ (c) $D = S$ (d) $D = 0$

2. Demand for salt is

- (a) Elastic (b) Inelastic (c) Perfectly elastic (d) Unitary

3. If supply increases, equilibrium price

- (a) Rises (b) Falls (c) Stays same (d) Becomes zero

4. Elasticity of a vertical demand curve is

- (a) 0 (b) 1 (c) ∞ (d) -1

B. Short answer

11. Define market equilibrium.

12. What is excess demand?

13. State two factors that affect price elasticity of demand.

C. Long answer

14. Explain with diagrams the effect of an increase in demand on equilibrium price and quantity.

15. Explain the percentage and total expenditure methods of measuring elasticity.

Quick Revision Sheet

Chapter	Term	Remember
Theory of Demand	Demand	Quantity a consumer is willing and able to buy at a price
Theory of Demand	Demand schedule	A table of prices and quantities demanded
Theory of Demand	Demand curve	Graph of the demand schedule, normally sloping downward
Theory of Supply	Supply	Quantity a producer is willing to sell at a price
Theory of Supply	Supply curve	Graph showing quantity supplied at each price, normally upward-sloping
Theory of Supply	Input price	Cost of factors such as labour and raw materials
Market Equilibrium and Elasticity	Equilibrium price	Price at which quantity demanded equals quantity supplied
Market Equilibrium and	Excess demand	Quantity demanded exceeds supply at a price

Chapter	Term	Remember
Elasticity		below equilibrium
Market Equilibrium and Elasticity	Excess supply	Supply exceeds demand at a price above equilibrium

Answer Key

Chapter	Question	Answer
1	1	b
1	2	b
1	3	b
1	4	b
2	1	b
2	2	b
2	3	b
2	4	b
3	1	c
3	2	b
3	3	b
3	4	a