UNIT – I

Demand, supply and elasticity

Demand · Supply · Elasticity · Equilibrium

Explanatory Lecture Slides

Micro Economics · Major-5 · Semester IV

MICRO ECONOMICS

LEARNING OBJECTIVES

Topics covered in this unit

01 **State the law of demand and its exceptions**

02 **State the law of supply**

03 **Define and classify elasticity**

04 **Place market equilibrium and shifts**

05 **Apply to a tax and to a floor/ceiling**

06 **Hook competition and consumer law**

How this unit is organised

01	02	03	04	05	06
Demand	Supply	Elasticity	Equilibrium	Tax wedge	Legal hooks

Law of demand

Ceteris paribus, quantity demanded falls as price rises. Reasons: income and substitution effects, diminishing marginal utility.

- Exceptions: Giffen, Veblen/snob, necessities in a range, speculative demand, emergencies.
- Movement along the curve (price) v shift (income, tastes, prices of related goods, expectations).

Law of demand

ALONG	SHIFT
• Price of the good itself.	• Income. • Tastes. • Related prices.

Law of supply

Ceteris paribus, quantity supplied rises as price rises. Costs, technology, taxes, number of firms, expectations shift the curve.

- Short run: some factors fixed. Long run: entry. A ceiling (rent) and a floor (MSP, minimum wage) are the legal applications.

Law of supply

SHIFT LEFT

- A per-unit tax.
- Cost shock.

SHIFT RIGHT

- Subsidy.
- Better technology.

Elasticity

Price elasticity of demand: %ΔQ / %ΔP. Elastic (>1), inelastic (<1), unit, perfectly elastic/inelastic. Income elasticity (normal/inferior). Cross elasticity (substitutes/complements).

- Determinants of Ped: substitutes, share of budget, time, necessity.
- TR test: elastic → price cut raises TR. That is the 6-mark of a monopolist and of GST incidence.

Elasticity

PED

- Substitutes and time make demand more elastic.

TR

- Elastic: P down, TR up.

Equilibrium

Demand = supply. Excess demand bids price up; excess supply bids it down. Comparative statics: which curve moved?

- A 10-mark diagram in words: from eqm E to E' after a monsoon / a GST hike / an MSP.

Equilibrium

ASK

- Which curve moved?
- Which way?

THEN

- Price and quantity, both.

Tax wedge, floors, ceilings

A per-unit tax: supply shifts up by the tax; who pays depends on elasticities. Floor (MSP, minimum wage): surplus if above eqm. Ceiling (rent): shortage and queues.

- This is the micro of every price-control statute. Always draw (in words) a shortage or a surplus.

Tax wedge, floors, ceilings

INELASTIC DEMAND

- Buyer bears the tax.

CEILING

- Shortage.
- Black market.

Legal hooks

Competition Act (price-fixing shifts the supply that should have been), Consumer Protection Act 2019 (asymmetric information), Essential Commodities Act (ceilings in a shortage).

- A micro answer that names one statute is a law-school answer.

Legal hooks

CEILING STATUTES

- ECA.
- Rent control (historic).

FLOOR STATUTES

- Code on Wages.
- MSP policy.

Equilibrium

Demand = supply. Excess demand bids price up; excess supply bids it down. Comparative statics: which curve moved?

- A 10-mark diagram in words: from eqm E to E' after a monsoon / a GST hike / an MSP.

LANDMARK AUTHORITIES

Cases a KSLU answer should name

CASE

Excel Crop Care v CCI

(2017) 8 SCC 47

A cartel is a conspiracy against the demand curve.

CASE

Malpe Vishwanath Acharya v State of Maharashtra

(1998) 2 SCC 1

A rent freeze is a ceiling: shortage and a constitutional cost follow.

CASE

Olga Tellis

(1985) 3 SCC 545

A pavement is not a textbook housing-supply curve — livelihood sits outside the Marshallian cross.

STATUTE / SECTION MAP

Provisions & materials to quote

Competition Act 2002,	Anti-competitive agreements — including price-fixing.
Consumer Protection Ac	Information and unfair price practices.
Essential Commodities	Price and stock controls in a shortage.
Code on Wages 2019	A floor in the labour market.
Sale of Goods Act 1930	The private-law face of a supply contract.

WRITE IT IN THE HALL

10 / 16-mark frames from this unit

Q1 Explain the law of demand. What are its exceptions?

Q2 What is elasticity of demand? Explain its kinds and determinants.

Q3 Show how a tax is shared between buyer and seller.

Q4 Write a note on price ceiling and price floor with Indian illustrations.

BEFORE YOU CLOSE THE FILE

Unit recap

1. Demand slopes down unless Giffen/Veblen/panic.
2. Shift v movement — always say which.
3. Ped decides tax incidence and TR.
4. Floors make surplus; ceilings make shortage.
5. Name one statute so the answer belongs in a law hall.