DEMAND & SUPPLY LAWS

Post graduate course 2025
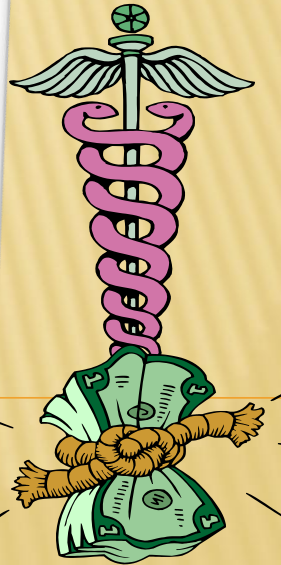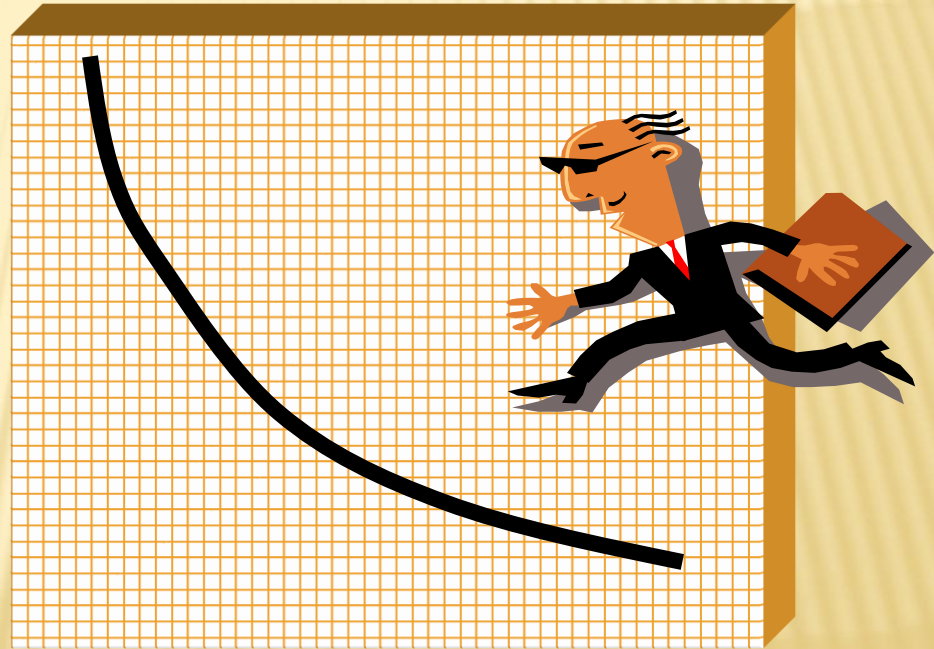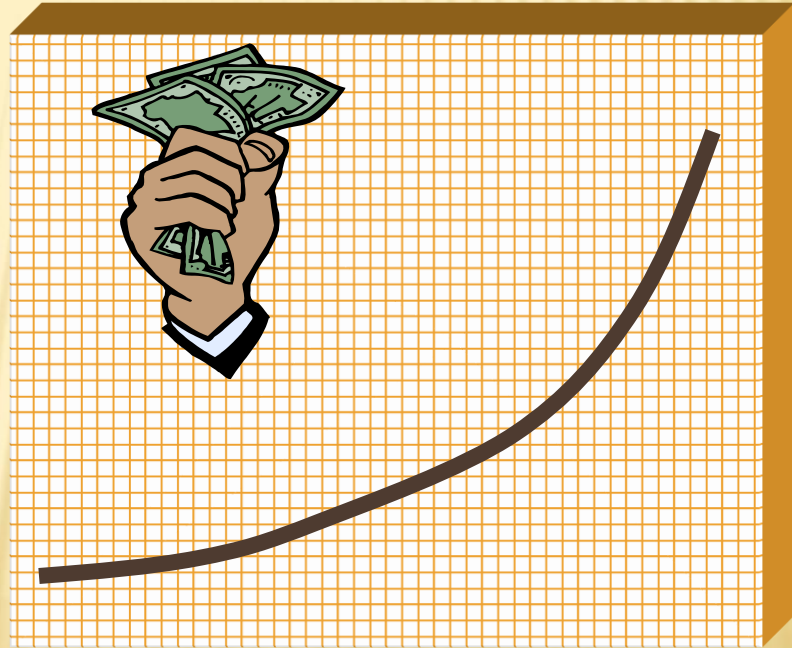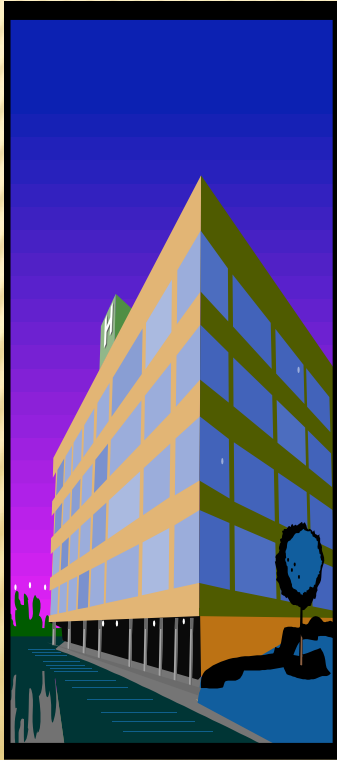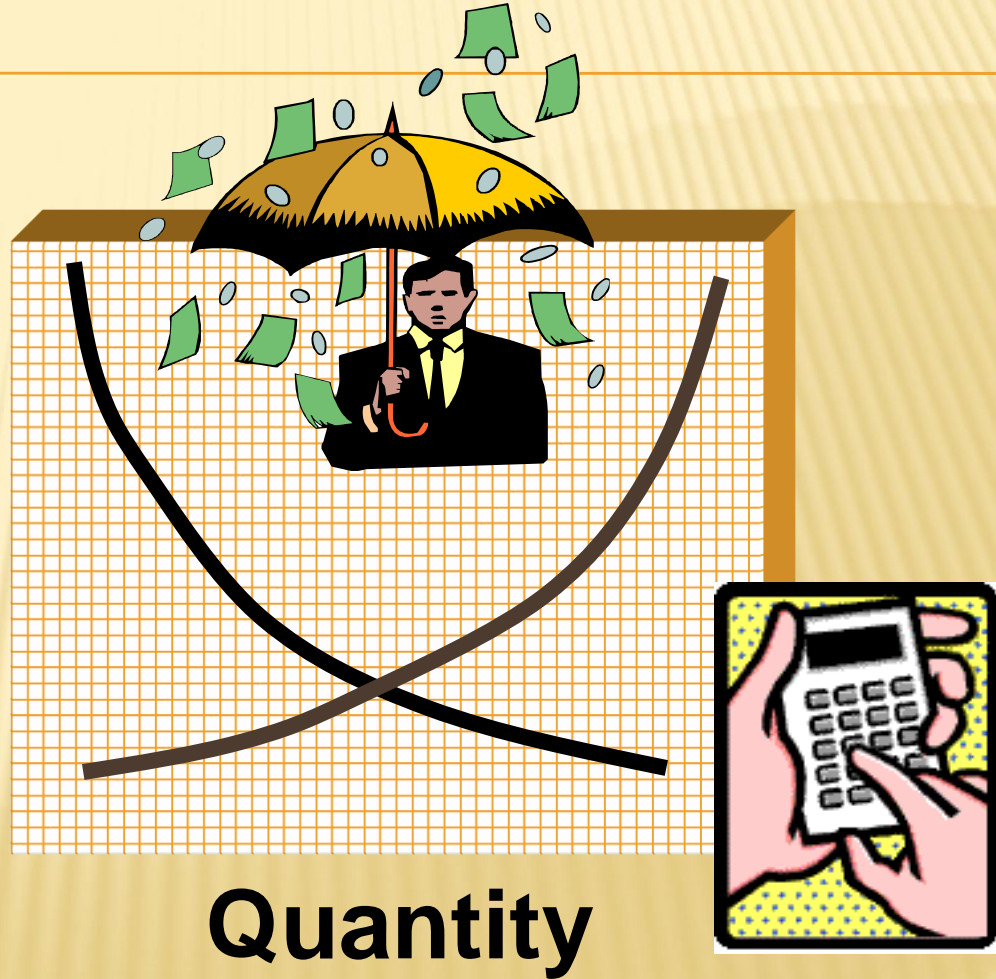
MARKET PRICE

LAWS OF SUPPLY & DEMAND

Consumer preference: The lower the price, the greater the quantity of products demanded (downward slope).

Producer preference: As long as price is high, producers will produce more (upward slope).

Market price: in competitive market buyers willing to buy amount sellers willing to sell.

Equilibrium price ➔?
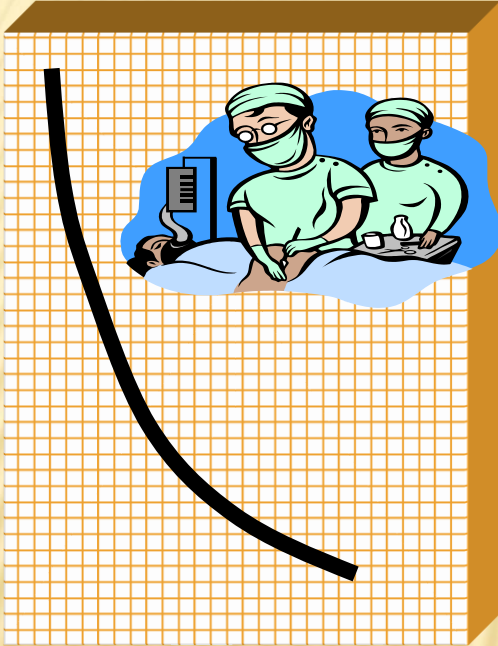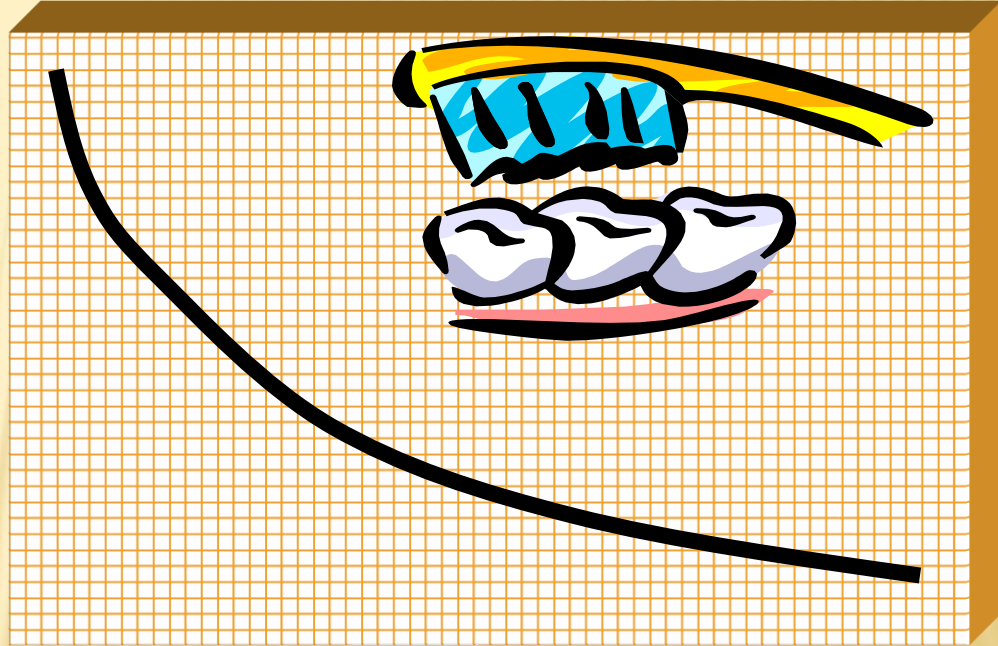
DEMAND ELASTICITY

<u>Inelastic demand:</u> for life sustaining health services as a function of price : price plays little role

<u>Elastic demand:</u> for minor health problems, preventive services & health education as a function of price.

ELASTICITY

- % change in dependant variable due to 1% change in independent variable.
- Ratio of % change in the quantity demanded or supplied to % change in price.

Example: If commodity price decreases by 10%, and sales consequently increase by 20%,

➔ demand elasticity for that commodity is 2 ➔ >1

$$Elasticity = \frac{\%\ sales\ change}{\%\ price\ change}$$

PRACTICAL: SMOKING ELASTICITY

Tax on cigarette smoking aims to decrease smoking and increases tax revenue, comment.

Smoking Type	Elasticity	Tax revenue	Effect on smoking

What is the benefit of Tax on cigarette smoking?

DEMAND SHIFTERS

Variables (other than price) shifting demand curve:

Income: rich people demand more goods, shifting curve to Rt. <u>Inferior</u> goods (used equipment, low brand medicines) purchased less by rich. Poor may demand more care due to more illness. (what about <u>luxury goods</u>?)

Substitutes /complements prices : Lt /Rt shifters.

Price of time: (waiting, traveling).

Insurance: paid service (curve clockwise rotation).

People preference: old people ⇑ demand, CS, pills, Lazec.

illness events: bigger health loss, more care buying.

PRACTICAL: PRICE OF TIME

An adult provides care for elderly parent 2hrs/day, is providing care that otherwise have to be purchased in the market for $10/hr.

What is the time cost/yr?

PRACTICAL: SHIFTERS

Assuming competitive health care market, explain the effects on equilibrium price and quantity of the following, on the health service market:

× Theoretical elimination of smoking in population.

Shifter	Sup	Dem	Health service price

PRACTICAL: SHIFTERS

How would a national health insurance program affect health care market ?

Shifter	Sup	Dem	Health service

SUPPLY SHIFTERS

Variables affecting supply, without price change:

Technology: recombinant vaccines (Rt shift)

Input price: Increase labor force wages, decreases drugs supply (Lt shift), forcing developed countries to license drug factories in developing countries.

Prices of production related goods:, cotton supply for medical industry is less. if cotton clothes prices rise

Size of industry: more supply when firms are more.

Environment: favorable environment increases supply (sun screens, bottled water), Laws.

PRACTICAL: SHIFTERS

Assuming competitive health care market, explain the effects on equilibrium price and quantity of the following, on the health service market:

✖ Technological change reducing the cost of x-rays.

Shifter	Sup	Dem	Health service price

PRACTICAL: SHIFTERS

Assuming competitive health care market, explain the effects on equilibrium price and quantity of the following, on the health service market:

✖ Increased graduation of new doctors.

Shifter	Sup	Dem	Health service price

PRACTICAL: SHIFTERS

Assuming competitive health care market, explain the effects on equilibrium price and quantity of the following, on the health service market:
- A price ceiling placed on physician fees.

Shifter	Sup	Dem	Health service price

PRACTICAL: SHIFTERS

Law requiring hospitals to hire only college degree nurses. How would this affect hospital care market?

Shifter	Sup	Dem	Health service

Today we have multiplied possessions,
but reduced values