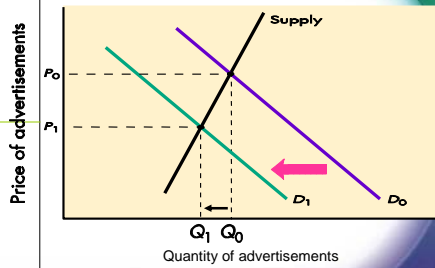




The Market for Advertising

- In 2001, demand for advertising fell as the U.S. economy slowed down.
- The supply/demand model would predict that price and quantity to fall.

The Market for Advertising



The Market for Advertising

- Instead of lowering price, the media offered higher quality advertising at the same price.
- This is equivalent to a decline in price.

The Price of a Foreign Currency

- The market for foreign currencies is called the foreign exchange (forex) market.
- The *exchange rate* – the price of one currency in terms of another currency.

The Price of a Foreign Currency

- People demand currencies of other countries to buy those countries' goods and assets.

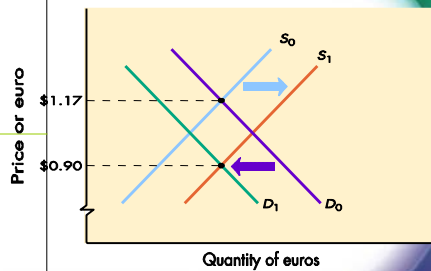
The Price of a Foreign Currency

- The determination of exchange rate is the same as the determination of price.
- A currency is just another good.

The Price of a Foreign Currency

- The euro is the currency used by 12 of the members of the European Union.
- The euro dropped from \$1.17 to about \$0.90 in the two years from when it was introduced.

The Price of a Foreign Currency



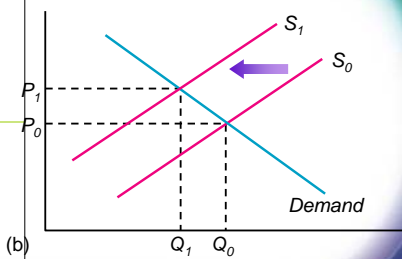
Three Real World Examples

- Supply and demand can shed light on a variety of real-world events:
 - Florida freeze.
 - Burkhas in Afghanistan.
 - Coffee beans.

Florida Freeze

- The crop-damaging freeze shifted the supply curve to the left.
- At the original price, quantity demanded exceeded quantity supplied.
- Price rose until the quantity demanded equaled the quantity supplied.

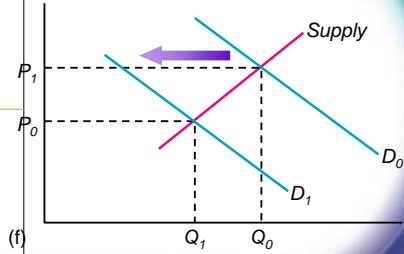
Florida Freeze



Burkhas in Afghanistan

- Once the Taliban was ousted in Afghanistan, demand for burkhas fell as many women stopped wearing them.
- At the original price, quantity supplied exceeded quantity demanded.
- Price fell until the quantity demanded equaled the quantity supplied.

Burkhas in Afghanistan



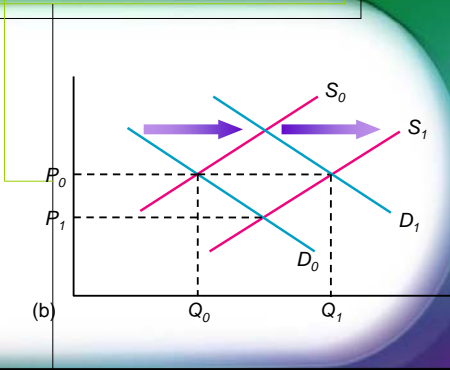
Coffee Beans

- The supply of coffee increased as new growers entered the market, growing techniques improved, and weather was favorable.
- Coffee-growers attempted to increase demand by instituting a successful marketing campaign.

Coffee Beans

- The supply increase causes price to fall.
- If the marketing campaign is successful, demand will increase, raising price back to its former level.

Coffee Beans



A Review

	No change in supply	Supply shifts out	Supply shifts in
No change in demand	No change.	Price falls; Quantity rises.	Price rises; Quantity falls.
Demand shifts out	Price rises; Quantity rises.	Quantity rises; Price could be high or lower.	Price rises; Quantity could rise or fall.
Demand shifts in	Price falls; Quantity falls	Price falls; Quantity could rise or fall.	Quantity falls; Price could rise or fall.
