

*University of Mujahid Abdelhafid Boussouf – Mila*

*Faculty of Economics, Commercial & Management Sciences*

*Departement Of Tronc Commun*

*Lectures On : English economic terminology*

*Addressed To 1st Year Students – 2nd Semester*

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*Academic Year 2025-2026*

# Supply and Demand

Supply and demand are fundamental concepts in Economics. They explain how prices and quantities of goods and services are determined in a market. The interaction between producers (suppliers) and consumers (demanders) determines the market outcome.

## 1- Supply

**1-1- Definition:** Supply is the quantity of a good or service that producers are willing and able to sell at different prices over a specific period.

**1-2- Law of Supply:** As price increases, the quantity supplied increases, and vice versa (*ceteris paribus*).

**Example:**

If the price of wheat increases, farmers will try to produce and sell more wheat because it becomes more profitable.

**1-3- Supply Curve:** Usually slopes upward from left to right.

**1-4- Factors affecting supply:**

The main determinants of supply include:

➤ **Production costs:** The cost of inputs (such as labor, raw materials, and energy) directly affects the quantity a producer is willing to supply.

✓ **Higher production costs** → supply decreases (producers produce less at the same price).

✓ **Lower production costs** → supply increases (producers can produce more at the same price).

➤ **Technology Used**

Technological improvements make production more efficient.

✓ Better technology reduces production costs and increases productivity → supply increases.

✓ Conversely, outdated or inefficient technology can limit supply.

➤ **Taxes and Government Subsidies**

✓ **Taxes** on production or sales increase costs → supply decreases.

✓ **Subsidies** (financial support) lower costs → supply increases.

✓ Governments use these tools to influence production levels in the market.

➤ **Prices of Other Goods (Alternative Products)**

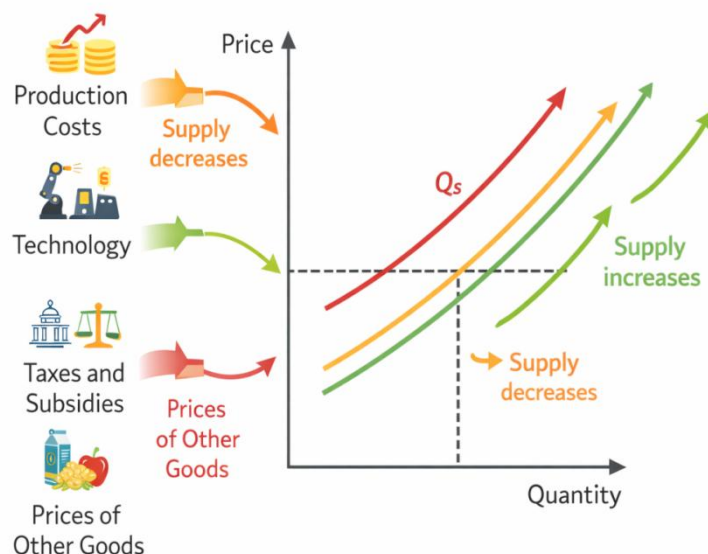
✓ Producers often have options about what to produce.

✓ If the price of an alternative good rises, producers may switch production → supply of the original good decreases.

- ✓ If the alternative's price falls, more resources stay in producing the original good → supply may increase.

These factors affecting supply can be represented in the following figure:

**Figure 1: Factors Affecting Supply (factors that shift the supply curve)**



## 2. Demand

**2-1- Definition :** Demand refers to the quantity of a good or service that consumers are willing and able to buy at different prices during a given period of time.

### 2-2- Law of Demand:

The law of demand states that, *ceteris paribus* (all other factors being constant), when the price of a good increases, the quantity demanded decreases, and when the price decreases, the quantity demanded increases.

### 2-3- demand curve:

The demand curve is a graphical representation of the relationship between the price of a good and the quantity demanded by consumers over a certain period of time.

**Downward Sloping** – The curve slopes downward from left to right. This shows the inverse relationship between price and quantity demanded.

#### Example:

If the price of coffee decreases from \$5 to \$3, more consumers will buy coffee. The quantity demanded increases, which is shown as a movement downward along the demand curve.

### 2-4- Factors Affecting Demand:

In Economics, demand is not only influenced by the price of a good but also by several other factors. These factors can shift the demand curve either to the right (increase in demand) or to the left (decrease in demand).

### ➤ **Price of the Good**

The main factor affecting demand.

- ✓ According to the law of demand, when the price of a good rises, the quantity demanded decreases.
- ✓ When the price falls, the quantity demanded increases.
- ✓ Movement along the demand curve represents this effect.

### ➤ **Income of Consumers**

- ✓ An increase in consumer's income generally increases demand for normal goods (e.g., cars, smartphones).
- ✓ A decrease in income reduces demand.
- ✓ For inferior goods (e.g., second-hand items), demand may decrease as income rises.

### ➤ **Prices of Related Goods**

- ✓ **Substitutes:** Goods that can replace each other.  
Example: If the price of tea rises, demand for coffee (a substitute) may increase.
- ✓ **Complements:** Goods used together.  
Example: If the price of printers rises, demand for printer ink (a complement) may decrease.

### ➤ **Consumer Preferences and Tastes**

- ✓ Changes in tastes, trends, or cultural preferences can increase or decrease demand.  
Example: A health campaign may increase demand for fruits and vegetables.

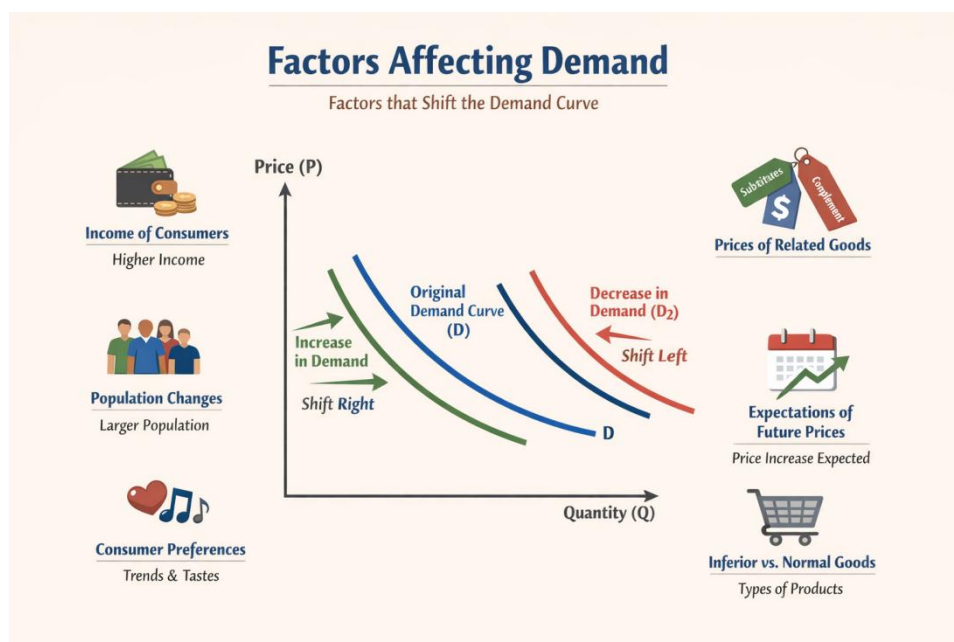
### ➤ **Population Size and Demographics**

- ✓ More consumers in the market increase total demand.
- ✓ Changes in age distribution, family size, or urbanization can affect the types of goods demanded.

### ➤ **Expectations About Future Prices**

- ✓ If consumers expect prices to rise in the future, they may buy more now, increasing current demand.
- ✓ If prices are expected to fall, consumers may delay purchases, reducing current demand.

These factors affecting demand can be represented in the following figure:  
**Figure 2: Factors Affecting Demand (factors that shift the demand curve)**



From the previous analysis, we conclude that **Price** affects the **quantity demanded** (movement along the curve).

All other factors (income, related goods, tastes, population, expectations) **shift the demand curve** to the right (increase) or left (decrease).

### 3- Production in Economics

Production is the process by which goods and services are created using various resources. It is a fundamental concept in Economics, because it explains how societies transform inputs into outputs to satisfy human needs and wants.

#### 1. Definition of Production

Production can be defined as: the process of creating goods and services that increase the utility or value of resources. It includes all activities that transform inputs into outputs, thereby expanding the availability of goods and services to meet human needs and wants.

#### 2. Factors of Production

The main resources used in production are called factors of production:

- ✓ **Land** – Natural resources such as soil, water, minerals, and forests.
- ✓ **Labor** – Human effort, both physical and mental, used in production.
- ✓ **Capital** – Man-made resources like machinery, tools, and buildings used to produce goods.
- ✓ **Entrepreneurship** – The ability to organize resources, take risks, and innovate in order to produce goods and services.

### 3. Types of Production

- ✓ **Primary Production:** Production of raw materials from natural resources (e.g., farming, mining).
- ✓ **Secondary Production:** Processing raw materials into finished goods (e.g., factories making cars or clothes).
- ✓ **Tertiary Production:** Provision of services rather than goods (e.g., banking, transportation, education).

### 4. Productivity

Productivity measures the efficiency of production:

- ✓ **Labor Productivity** = Output ÷ Labor Input.
- ✓ **Capital Productivity** = Output ÷ Capital Input.

Higher productivity means more output is produced using the same amount of resources.

Production is the backbone of any economy. Understanding how resources are transformed into goods and services allows policymakers and businesses to improve efficiency, reduce costs, and meet the needs of society.

## 4- Consumption in Economics

Consumption is a fundamental concept in Economics, referring to the use of goods and services by individuals or households to satisfy their needs and wants. It is the final stage of economic activity and plays a key role in determining demand in the market.

### 1. Definition of Consumption

Consumption can be defined as: The direct utilization of goods and services to fulfill human wants and needs.

According to John Maynard Keynes, consumption is the part of income that households spend on goods and services to satisfy their wants. He emphasized that consumption depends primarily on current income and formulated it in the Consumption Function:

$$C = a + bY$$

Where:

- C = total consumption.
- a = autonomous consumption (consumption even when income is zero).
- b = marginal propensity to consume (the fraction of additional income that is spent).
- Y = total income.

Keynes highlighted that as income rises, consumption also rises, but not necessarily by the same amount, because people tend to save a portion of their additional income.

## 2. Types of Consumption

There are several types of consumption, the most important of which are:

✓ **Final Consumption:** This is the use of a good or service to satisfy a human need. It involves the direct depletion or gradual wear and tear of the good.

✓ **Intermediate Consumption:** This refers to goods that are used up during the production process, either by being incorporated into more advanced products (such as raw materials) or by being consumed in the production process itself.

✓ **Immediate Consumption:** This occurs when a good is completely used up after a single use.

✓ **Gradual Consumption:** This occurs when a good is used multiple times by a person or consumer before it is fully depleted.

✓ **Individual Consumption:** This occurs when a product is used by a single individual.

✓ **Collective Consumption:** This occurs when a product or service is used by a group of individuals collectively.

## 3. Factors Affecting Consumption

Several factors influence consumption patterns:

✓ **Income:** Higher income generally increases consumption, while lower income reduces it.

✓ **Prices of Goods and Services:** Rising prices may decrease consumption, while falling prices can increase it.

✓ **Consumer Preferences and Tastes:** Trends, habits, and cultural factors affect consumption choices.

✓ **Availability of Credit:** Access to loans and credit can increase consumption.

✓ **Expectations About the Future:** If consumers expect higher prices or income in the future, current consumption may increase or decrease accordingly.

## 4. Rationalizing Consumption

Rationalizing consumption refers to the efficient and balanced use of financial resources to satisfy needs while avoiding waste, extravagance, and unnecessary spending. It emphasizes moderation, adherence to ethical principles, and actions that promote human well-being, virtue, and social responsibility.

Economic fluctuations affect consumer behavior differently:

✓ **During economic booms,** the economy expands, employment opportunities increase, and both consumer and investment spending rise. As a result, the real output of total production grows.

✓ **During economic recessions,** the growth of consumer and investment spending slows, unemployment rises, new job opportunities diminish, and financial institutions may face crises. This leads to a decline in real production, causing it to fall below its potential.

Finally Consumption is a central concept in economics, linking income, utility, and demand. Understanding consumption patterns helps policymakers and businesses make decisions about production, pricing, and economic planning.

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