

The further explanation of demand supply curve in microeconomics

Wanchung Hu

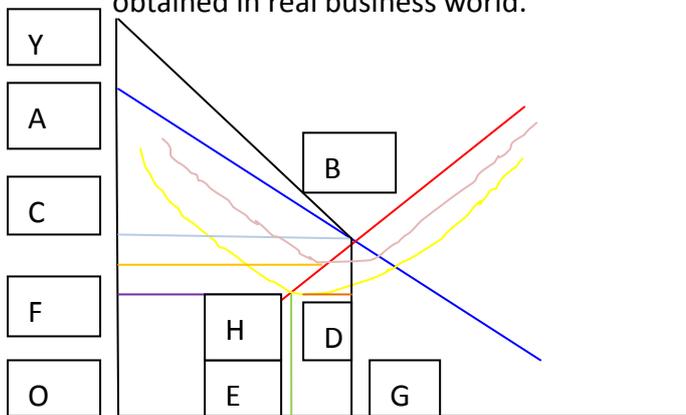
Graduate Institute of Economics

College of Social Sciences

National Taiwan University

Abstract

The demand supply curves represent the fundamental economics principles. However, there is lacking detailed relationship between company and the microeconomics when we apply this demand-and-supply curve. Thus, here, I propose a detailed explanation of microeconomic demand-and-supply curve to put material cost and labor cost in the graph. Thus, a more practical demand-supply graph can be obtained in real business world.



Text

Here, I will propose a new microeconomic demand-and-supply model shown in the following picture. Thus, the demand-supply curve can be more practical in real business world.

In the above graph, we can see the longterm demand curve is the blue line(MB curve: Marginal Propensity to Consume: MPC) and the longterm supply curve is the red line(MC curve, wage rate curve). B point is the equilibrium point. BY is 45 degree line, so the area YAB is equal to saving due to definition ($1-MPC=MPS$). The yellow line is the average variable cost and the pink line is the average total cost. Since this is the microeconomics curve, the supply line (marginal cost) line just begins from the bottom of D point (above average total cost). The consumer surplus is the area ABC(consumption). The producer surplus is the area BCFH which is the profit plus total fixed cost(assets). The total revenue is area BCOG. Here, we will see the

material cost is the area DGFO. It is because the material cost is in the linear relationship with each quantity of good produced. The labor cost is equal to the marginal cost line (red line). It is the wage rate and it is because the labor cost is in inverse relationship to the marginal productivity. The more workers are, the decreased productivity trend is. Thus, the labor cost is BDH triangle. The ladder area between dark yellow line and light blue line is the profit. The ladder area between dark yellow line and purple line is the fix cost. By using this principle, we can apply the demand-supply curve to real world business more practically.