

SECTION 3.1 MARKETS

- A **market** is the process of buyers and sellers exchanging goods and services.
- The conditions under which exchange occurs between buyers and sellers can vary incredibly, and these differences make it difficult to precisely define a market.
- Goods being priced and traded in various ways at various locations by various kinds of buyers and sellers further compound the problem of defining a market. Some markets are local but numerous, others are global.
- The important point about a market is not what it looks like, but what it does—it facilitates trade.
- Buyers, as a group, determine the demand side of the market, whether it is consumers purchasing goods or firms purchasing inputs. Sellers, as a group, determine the supply side of the market, whether it is firms selling their goods or resource owners selling their inputs.
- It is the interaction of buyers and sellers that determines market prices and output through the forces of supply and demand.
- We focus on how supply and demand works in a **competitive market**, in which there are a number of buyers and sellers offering similar products and no single buyer or seller can influence the market price. That is, buyers and sellers have very little market power. Because most markets contain a large degree of competitiveness, the lessons of supply and demand can be applied to many different types of problems.