**Demand and Supply**

Demand and supply refer to desired amounts.

If the demand is 5, then the buyer wants to buy 5 units at the market price.

If the supply is 10, then the seller wants to sell 10 units at the market price.

**Money as the Medium of Exchange**

People use money to buy goods and services.

The demander is the one who pays the money.

The supplier is the one who provides the goods and services.

**Labor Market**

One speaks of the demand and supply of labor.

The employer pays for the labor, and the worker supplies the labor.

An economist does not speak of the demand and supply of jobs. This terminology would have the supplier providing the money, which is backwards.

**Market Equilibrium**

*Market equilibrium* means that demand equals supply.

Given the market price, each demander buys whatever quantity he chooses, at the market price. Each supplier sells whatever quantity he chooses, at the market price.

**General Equilibrium**

*General equilibrium* refers to market equilibrium simultaneously in all markets.

Standard microeconomic theory has the context of general equilibrium.
Notional Demand and Supply
One analyzes demand and supply under the assumption that in every market one can buy or sell any desired amount at the market price, subject to the budget constraint.
For example, a consumer decides on his demand for goods, under the assumption that he can work however much he chooses at the market wage.
One refers to this demand and supply as notional. The consumer has a notion that he wants to buy and sell in a certain way, and he assumes that he can do so.

Disequilibrium
Disequilibrium refers to a situation in which demand does not equal supply.
For example, the demand for a good might be 6, and the supply might be 10. The excess supply is 4.
One possibility is that the excess supply causes the price of the good to fall, raising demand and reducing supply, and equilibrium results.

Excess Supply
Alternatively, perhaps the price does not fall, and the excess supply endures.
Demanders buy 6 from the suppliers, and the excess supply is still 4.

Terminology
Since demand and supply refer to desired amounts, one must not say that the supply is 6. The suppliers sell 6, but the supply is 10.

Recession as Disequilibrium
According to Keynes, in recession the economy is not in general equilibrium. Instead there is excess supply of goods and labor.

Excess Supply of Goods
Firms reduce production because there is deficient aggregate demand for goods. There is no reason to produce what cannot be sold.
Production is less than supply. At the market price, firms would like to sell more, but the demand is lacking.
Excess Supply of Labor
In recession there is also excess supply of labor, because the demand for labor is weak. There is involuntary unemployment in the following sense. Qualified workers who would like to work at the market wage cannot get a job, because the demand for labor is low.

Effective Demand and Supply
With disequilibrium, one refers to the effective demand and supply. The effective demand and supply take into account how disequilibrium in one market spills over into other markets.

Recession
For an economy in recession, the effective demand and supply govern the behavior of firms and consumers.

Spillovers
Disequilibrium in one market has a spillover effect on another market. For example, the excess supply of goods reduces the demand for labor. Firms will not hire workers if the output cannot be sold. The excess supply of labor reduces the demand for goods. If workers are unemployed, they lack the income needed to buy goods.