ECONOMICS FOR BUSINESS 23115 EXAM NOTES

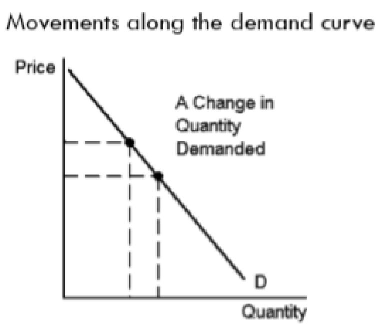
CONTENTS

FORMULAS THAT NEED TO BE MEMORISED FOR THE EXAM

MICRO 1: DEMAND AND SUPPLY

- Demand and Supply considers how buyers and sellers behave and interact with one another in competitive markets. It shows how the interaction between buyers and sellers determines the quantity of each good/service and the price which it is sold in a competitive market
  - → **Competitive market:** many buyers and sellers that each has a negligible impact on the market price. To have a **perfectly competitive environment** the goods on sale are all the exactly the same (homogenous) and there are so many buyers and sellers that none can influence the market price.
    - o These buyers and sellers are known as 'price takers'.
    - o **S & D** only applies to competitive markets not monopolies (one seller markets).
- **Demand** is **Downward Sloping**
  - → **Quantity Demanded** is the amount of goods that buyers are willing and able to purchase. It also depends on many factors where the price of the good plays a central role.
  - → **Law of Demand:** Ceteris Paribus, the quantity of a good falls (rises) when the price of the good rises (falls).
  - → Demand can be represented through a **demand schedule and a demand curve.**
  - → **Market Demand-** Market demand is the sum of all individual demands (horizontally -total quantity).
- **Movement along the demand curve:** A change in **price** generates a movement along the demand curve and thus a change in the quantity demanded.
- **Shifts in the demand curve (change of factors other than price) :** a change in 'other factors' generates a shift in the demand curve either left or right.
  Factors:
  - → **Income-**the relationship between income and demand depends on what type of good the product is.
  - → **Normal good-** a good for which, other things being equal, an increase in income leads to an **increase** in demand.
  - → **Inferior good-** a good for which, other things being equal, an increase in income leads to a **decrease** in demand.
  - → **Prices of related goods-**The relationship between the price of a related good and demand depends on what type of goods the products are.
  - → **Substitutes-**two goods for which a **decrease** in the price of one good leads to a **decrease** in demand for the other good.
  - → **Complements** -two goods for which a **decrease** in the price of one good leads to an **increase** in the demand for the other good.

    Also:
  - → **Tastes-** if you like something, you buy more of it. Economists do not normally try to explain peoples tastes. However, they do examine what happens when tastes change.
  - → **Expectations** – e.g. About your future income or About the future price of the good
  - → **Number of buyers-**Because market demand is derived from individual demands it positively depends on the number of buyers.



MICRO 2: MARKET EQUILIBRIUM AND ELASTICITY

- **EQUILIBRIUM** is a situation in which supply and demand have been brought to a balance,
    - **Equilibrium Price** also known as **Market Clearing Price**
        - On a graph it is the price at which the supply and demand curves intersect.
    - **Equilibrium Quantity** is both the quantity supplied and quantity demanded at equilibrium price.
        - On a graph it is the quantity at which the supply and demand curves intersect.
- **Markets not in equilibrium- Surplus or Shortage**
    - **Surplus** (excess supply) is when the market price is higher than the equilibrium price, thus quantity supplied is larger than quantity demanded. Suppliers will lower price to increase sales as to move towards equilibrium.
    - **Shortage** (excess demand) is market price is lower than equilibrium price, thus the quantity supplied is smaller than quantity demanded. Suppliers will raise price due to too many buyers chases goods as to move towards equilibrium.
- **Law of Supply and Demand**- if the market is not in equilibrium, in perfectly competitive markets, the actions of buyers and sellers naturally move the market towards equilibrium.
- **Changes in Equilibrium**
    - An event that changes **D** or **S** is said to be an **exogenous** event/change.
    - The subsequent change in equilibrium is said to be an **endogenous** change.
    - **Changes equilibrium**

	No change in supply	**An increase in supply**	**A decrease in supply**
No change in demand	P same Q same	P down Q up	P up Q down
An increase in demand	P up Q up	P ambiguous Q up	P up Q ambiguous
A decrease in demand	P down Q down	P down Q ambiguous	P ambiguous Q down

- **ELASTICITY**
    - **Elastcity of Demand** measures how much demand responds to a change in its determinants (Price/Income/Cross-Price Elasticity of Demand).
    - **Elasticity of Supply** measures how much supply responds to changes in its determinants (Price elasticity of Supply).
- **The price elasticity of demand** measures how much the quantity demanded of a good responds to a **change in price.** It is calculated at the **percentage change in price.**
    - $$\text{Price elasticity of demand} = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$
    - The price elasticity of demand is a number that tells you how quantity demanded changes in proportion to the given change in price. e.g. PED=2 thus change in quantity demanded is twice as large.
    - The higher the PED, the higher the responsiveness of a quantity demanded of that food to a change in its own price.