ECONOMICS

LECTURE 1

What is economics	*Economics = how to allocate limited resources efficiently* Scarcity – limited resources in the industry – Trade off = sacrifice one thing for another, choosing one option over another – Rational = choosing the best for you – cost/benefit analysis Cost/benefit of University – Benefit = education, networking, knowledge construction, intellectual capabilities, communication skills, time management, group tasks, negotiation skills – Costs = tuition fees, time, sacrifice a full time salary, travel costs, uni textbooks Two types of costs – Accounting costs = how much you are going to pay for going to university – Economic costs = opportunity costs, the second best alternative that you have to sacrifice – instead of being a full time job but full time university student *Marginal = total benefit - total cost = net benefit* To work out the difference between the both to make a decision Is always small Positive economics =related to reality and growth Normative economics = related to ethics, thinking from a equity point of view, trying to maintain a good life standard for each person e.g. disability benefits We would love to buy this but due to scarcity of funds we can not
Supply & Demand	S&D Considers how buyers and sellers behave and interact with one another in competitive markets Shows how the interaction between buyers and sellers determines the quantity of each good/service produced and the price at which it is sold in a competitive market
Market & Competition	Market = group of buyers and sellers trading a g/s at a mall, ebay Markets take many forms. Sometimes they are highly organized (e.g., fish market auction in Sydney), sometimes less organized (e.g., market for ice-cream in Sydney) Competitive market = *is a market in which there are so many buyers and so many sellers that each has a negligible impact on the market price* – The smaller the ability of each buyer/seller to affect the market price, the more competitive the market. Throughout this subject we will assume that **markets are perfectly competitive (PC).** To reach this highest form of competition, a market must have two characteristics:

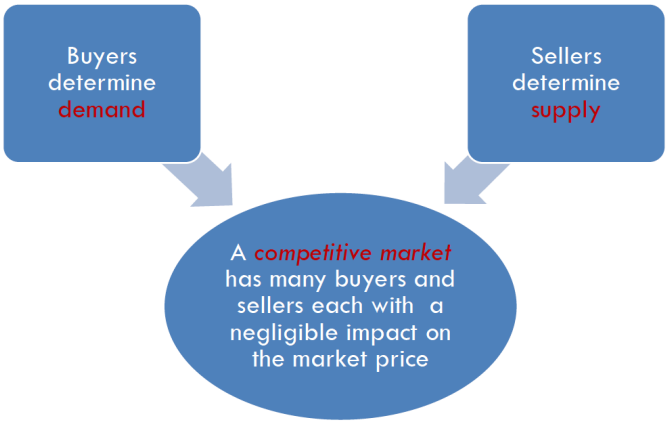
1. *The goods being offered for sale are all **exactly the same** (homogeneous)*
2. *The buyers and sellers are **so numerous that none can influence the market price.***

Price takers = When buyers and sellers accept the price given

PC VS MONOPOLY

PC MARKETS = Agricultural or commodity markets e.g. Gold or Apples, same thing with many producers

Not competitive markets are MONOPOLIES = One seller e.g. Electricity suppliers years ago there was only one, currently one type of bus company for a route



Demand

***Quantity demanded** of a good is the amount of a good that buyers are willing and able to purchase.*

- Willing = A buyer **wants** to buy that amount (given his/her tastes and preferences)
- Able = Given the price of the good, a buyer has **enough income to buy** the desired amount

Quantity demanded of a good depends on many factors such as the price of the good, tastes, income and many others

Law of demand = Other things equal, the quantity demanded of a good falls (rises) when the price of the good rises (falls).

CETERIS PARIBUS = Other things equal

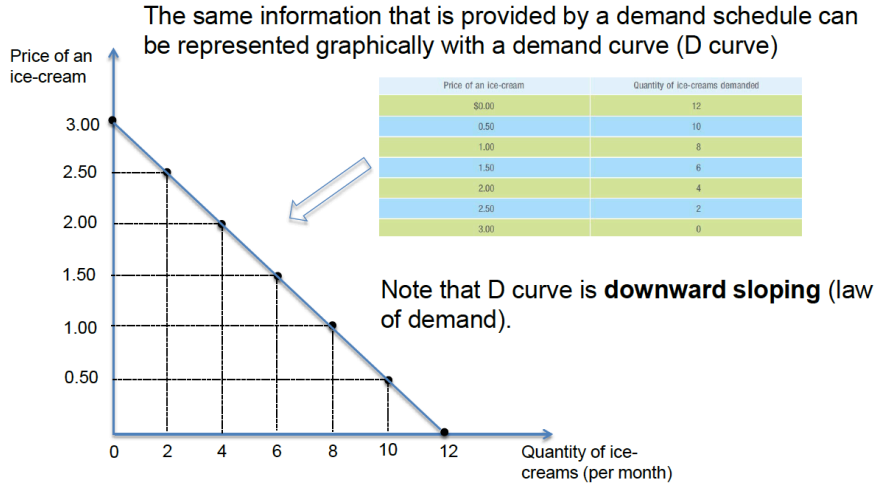
Two ways of representing the relationship between price and quantity demanded:

1. Demand Schedule: **A Table** showing the relationship between the price of a good and the quantity demanded.

Price of an ice-cream	Quantity of ice-creams demanded
$0.00	12
0.50	10
1.00	8
1.50	6
2.00	4
2.50	2
3.00	0

How many ice-cream's Catherine buys each month at different prices of ice-cream.
Ceteris Paribus assumption displayed

2. Demand Curve: **A Graph** showing relationship between the price of a good and the quantity demanded.



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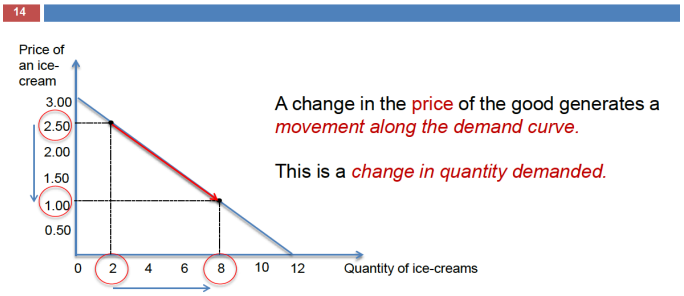
Market demand vs. individual demand

Market demand is the sum of all individual demands for a particular good or service.

- Graphically, individual demand curves are summed **horizontally** to obtain the market demand curve
- The market demand curve shows **how the total quantity demanded of a good varies with the price of the good,** holding all other factors constant

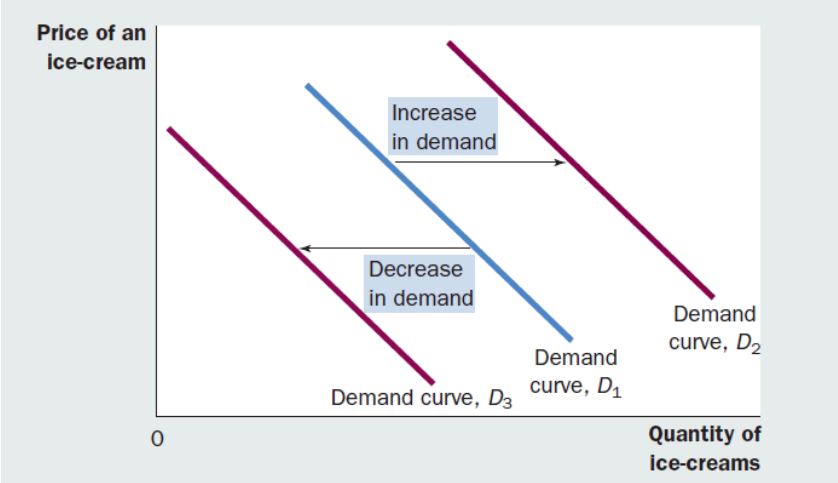
Movements along the demand curve



Shifts in the demand curve

A change in one or more of these "other factors" generates a shift in the demand curve, either to the left or right. And the price stays constant…

Other factors = seasons such as winter where ice cream is not bought alot



Thus a change in a demand

Other factors in depth

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
  e.g. homeless buying potatoes, gets money buys better quality food

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 the demand for the other good.
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  E.g. coke vs pepsi, coke prices decreases so demand for cheap pepsi decreses

- *Complements* – two goods for which a decrease in the price of one good leads to an increase in the demand for the other good.
  E.g. coke vs pepsi, pepsi prices lower thus demand for it is higher

Tastes - If you like something you buy more of it. Economists do not normally try to explain people's tastes, however, they do examine what happens when tastes change

Expectations - About your future income or About the future price of the good

Number of buyers - Because market demand is derived

Supply

Quantity supplied is the amount of a good that sellers are willing and able to sell

- Willing = Producer wants to sell that amount
- Able = The amount is feasible given resources and technology

The law of supply states that, other things being equal (ceteris paribus) the quantity supplied of a good rises when the price of the good rises, and vice versa

Two ways of representing the relationship between price and quantity supplied:

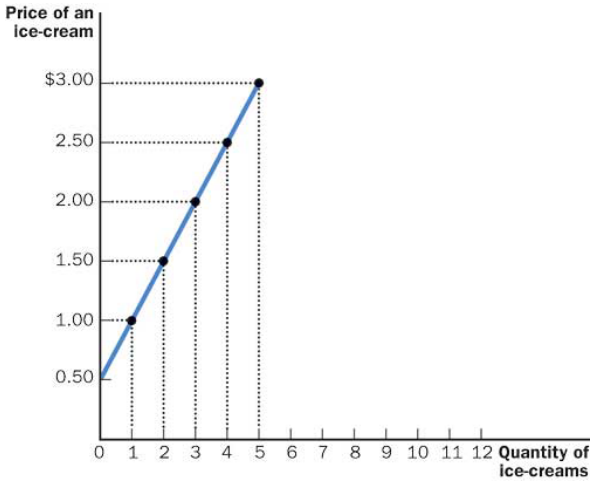
Supply Schedule: **Table** showing relationship between the price of a good and the quantity supplied.

Price of an ice-cream ($)	Quantity of ice-creams supplied
0.00	0
0.50	0
1.00	1
1.50	2
2.00	3
2.50	4
3.00	5

How many ice-creams Tony supplies each month at different prices of ice-cream.

How the monthly quantity of ice-creams supplied by Tony changes as the price of ice-cream changes.

Supply Curve: **Graph** showing relationship between the price of a good and the quantity supplied.

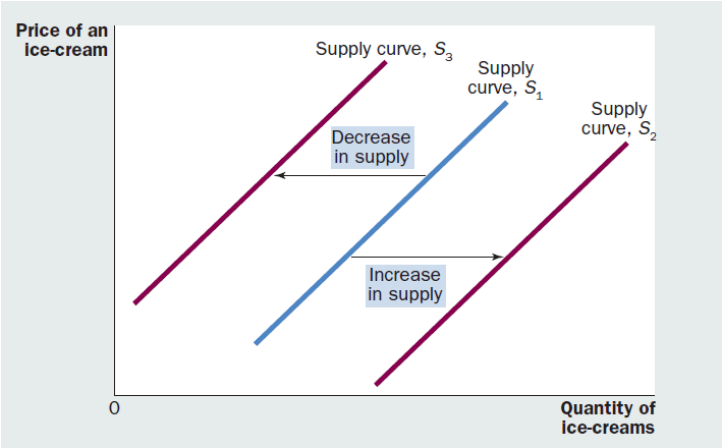


Market supply is the sum of all individual supplies for a particular good or service.

Graphically, individual supply curves are summed horizontally to obtain the market supply curve

Shifts in the supply curve

A change in one or more of these "other factors" (i.e. in a determinant other than price) generates a shift in the supply curve, either to the left or right



Other factors

Input prices - The quantity supplied is negatively related to the price of inputs used to make the good: If the price of an input rises (falls), the supply decreases (increases)

Technology - An improvement in production technology increases productivity: with the same inputs, the producer can supply more

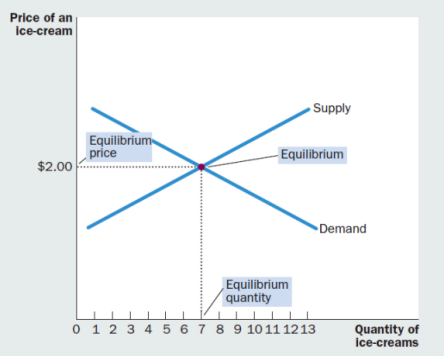
Expectations – eg If suppliers expect the price to rise they will be more likely to store some of the good and supply less to the market today

Number of sellers - Because market supply is derived from individual supply it positively depends on the number of sellers

LECTURE 2

Equilibrium

A situation in which supply and demand have been brought into balance



Price – the price when both points meet
AKA – market clearing price

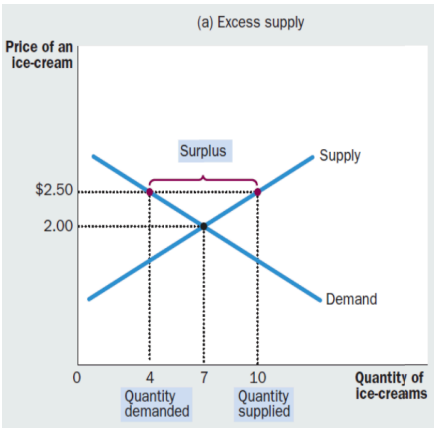
Quantity – Is both the quantity supplied and the quantity demanded at the equilibriuxm
price.

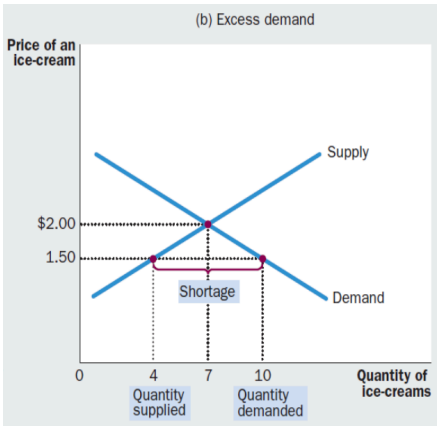
Surplus = market price is higher than the equilibrium price

- Sellers need to lower the price to increase sales

Shortage = Market price is lower than the equilibrium price

- Sellers need to rise the price to increase sales





Sellers naturally move the price – and hence the market – towards equilibrium

LAW OF SUPPLY AND DEMAND

- This does not mean that markets are never out of equilibrium. Surpluses and shortages may exist over certain period of time
- Once the equilibrium is reached, all buyers and sellers are satisfied and there is no upward or downward pressure on price

Changes in equilibrium

Demand & Supply = market's equilibrium

Shifts in D&S = change in equilbrium

- Events called 'exogenous' change D&S
- Subsequent change is 'Endogenous'

The analysis of a change in equilibrium is called comparative statics. It is done in three steps:

1. Decide whether the exogenous event shifts the supply or demand curve (or perhaps both).
2. Decide in which direction the curve shifts.
3. Use the supply-and-demand diagram to see how the shift changes the equilibrium (endogenous change).