11/10/22 ECONOMICS Chapter 1

Cost does not require money → other products
cost per extra pizza

All points on PPF are productively efficient

Opportunity cost - what you must give up to go
highest value alternative given up
[1 cd cost ½ of pizza]

Allocative efficiency → point which tells in preferred intersects
point of marginal benefit and marginal cost

Given up present day consumption for future consumption

Comparative advantage - if person can perform activity at lower opportunity cost

Absolute advantage - if person is more productive than other

Market Demand and market Supply
Relative price - ratio of its money price to the money price of
the next best alternative product - its opportunity cost

Law/principle of demand

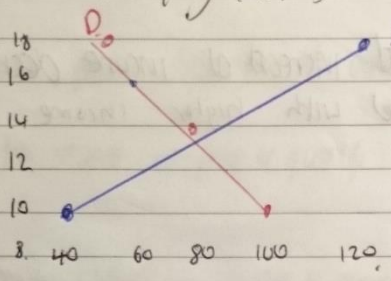
Normal product - demand increase when income increase

Inferior - demand decreased as income increases

30/10/12 Economics long Questions week 6

44/100

Q 24.



how responsive demand is to change in income

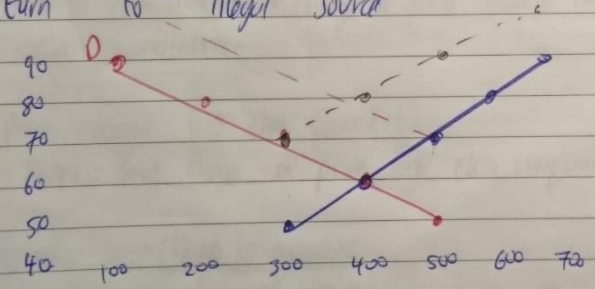
i. 80 rose bought at £13

ii. 60 hundred bought consumer pay

Q 25. Responded by turning to black market buying illegal imports without tax.

26. Second inelastic

27 More tax you put on the less people will buy and turn to illegal Source



i. price is £60 quantity is 400

ii price is 70 quantity of 500

iii. price = 70 quantity = 300

~~1. change demand reverse~~ cross price elasticity

1. change - price checklist source

compliment - negative Substitute positive

Inferior goods- Q demanded increases as income decreases
↑cheap stuff. Qd decreases with higher income

24/10/2012

25/10/12

Economics

cross price elasticity of demand for a substitute is positive
complement is negative

1% increase in price or quantity

Income elasticity $\frac{\text{change in quantity demanded}}{\text{change in income}}$ income doubles? quantity d
generally positive other.

between 0 < 1 normal product income goes up by more
income elasticity > 1 = inferior product - rice switched away from it (not as good)
income good down buy less of it.
only over certain time and range

Elasticity of Supply

Shift in demand curve → change in price change in quantity sold
x < 1 = inelastic

Price changes first then Quantity
elastic = small change in price large change in quantity

formula = $\frac{\%\text{ change in quantity}}{\%\text{ change in price}}$

inelastic - change in price, supply remains same, no change in demand

unit elastic = elasticity of 1 price double supply doubles 1 to 1, drawn through origin

elastic = price the same, supply increasing - will switch to something else supply someone else for better price.