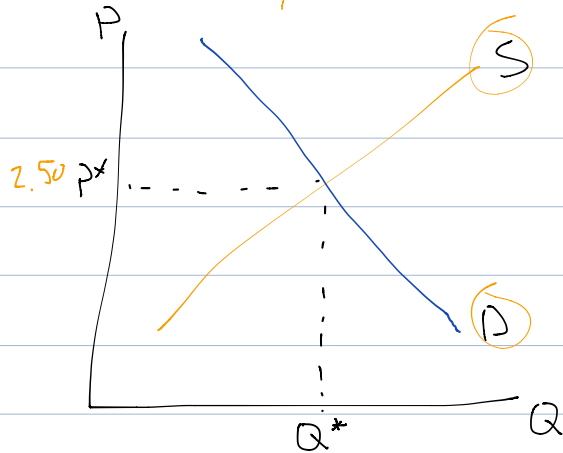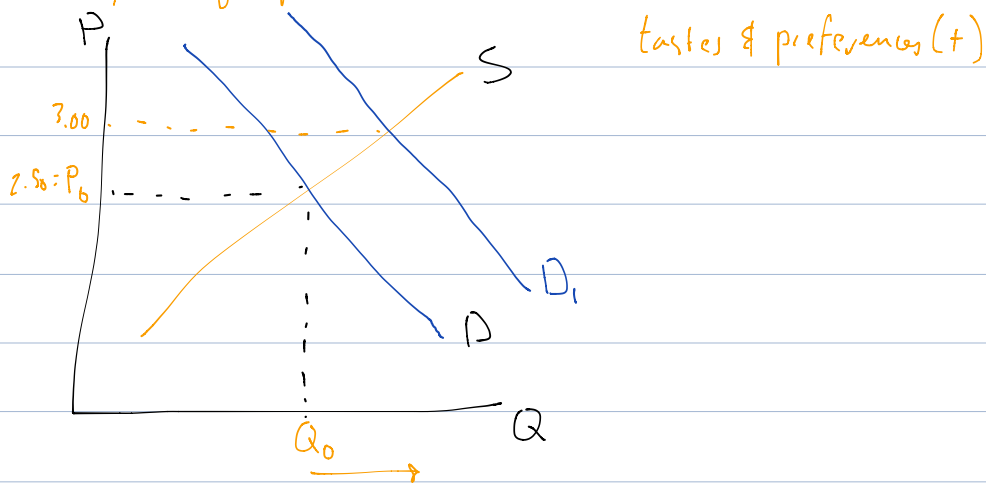# The Market System

Equilibrium: when plans of buyers match plans of sellers

$$Q^S = Q^D$$

1. Why does gas price rise mid-year?

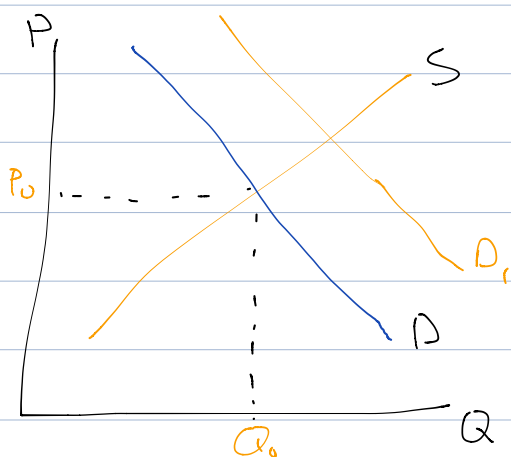tastes & preferences (t)

2. What happens to the price of gasoline when crude oil prices rise

Q

Q_0

Consumer income↑?

P

S

P_0

D_1

D

Q_0

Q
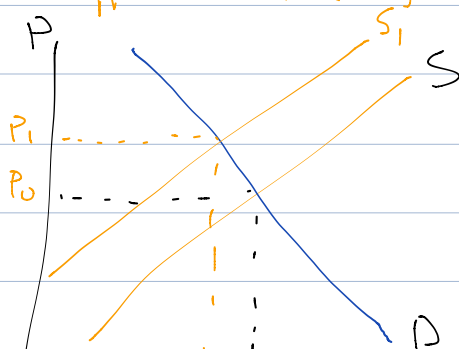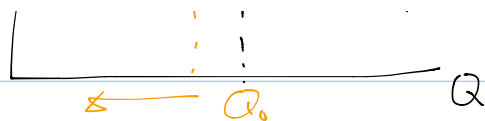
Crude oil $↑, resource↓

P

S_1

S

P_0

D

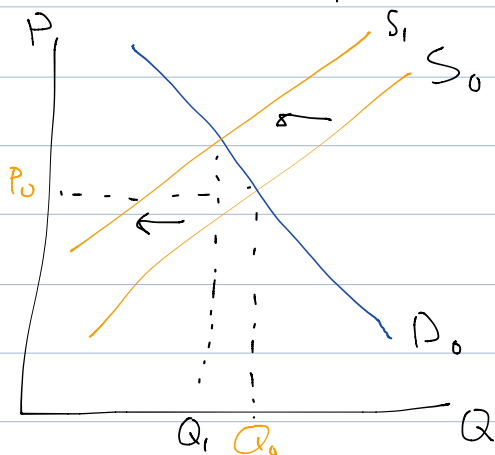Q

Q_0
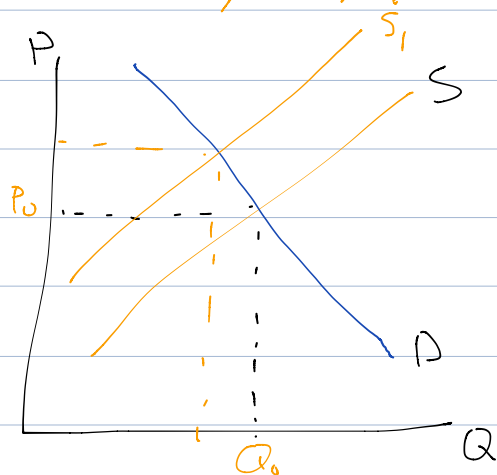
The Market System

Markets: bring buyers and sellers together to exchange

Market System: an economy based on voluntary exchange via markets for individual goods and services
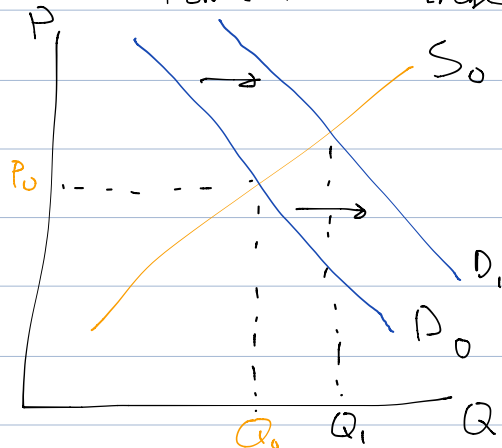
Prices are Signals

Ex1: Earthquake reduces supply of key resource

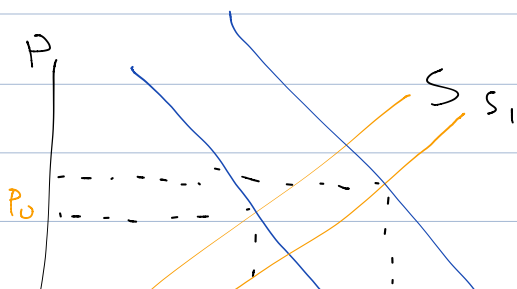Desired outcome: People use less
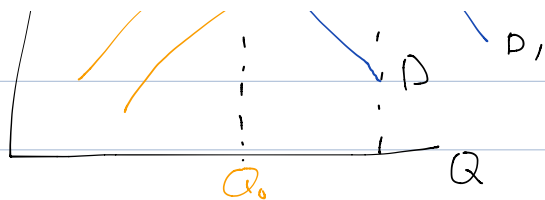

Ex2: New use for a commodity

Desired Outcome: Firms increase commodity output

Friedrich Hayek, "The Use of Knowledge in Society"

Income $\uparrow$ > Supply $\uparrow$

Gross Domestic Product (GDP): the market value of final goods and services (produced)

in a country in a year

GDP = output = income