ECONOMICS
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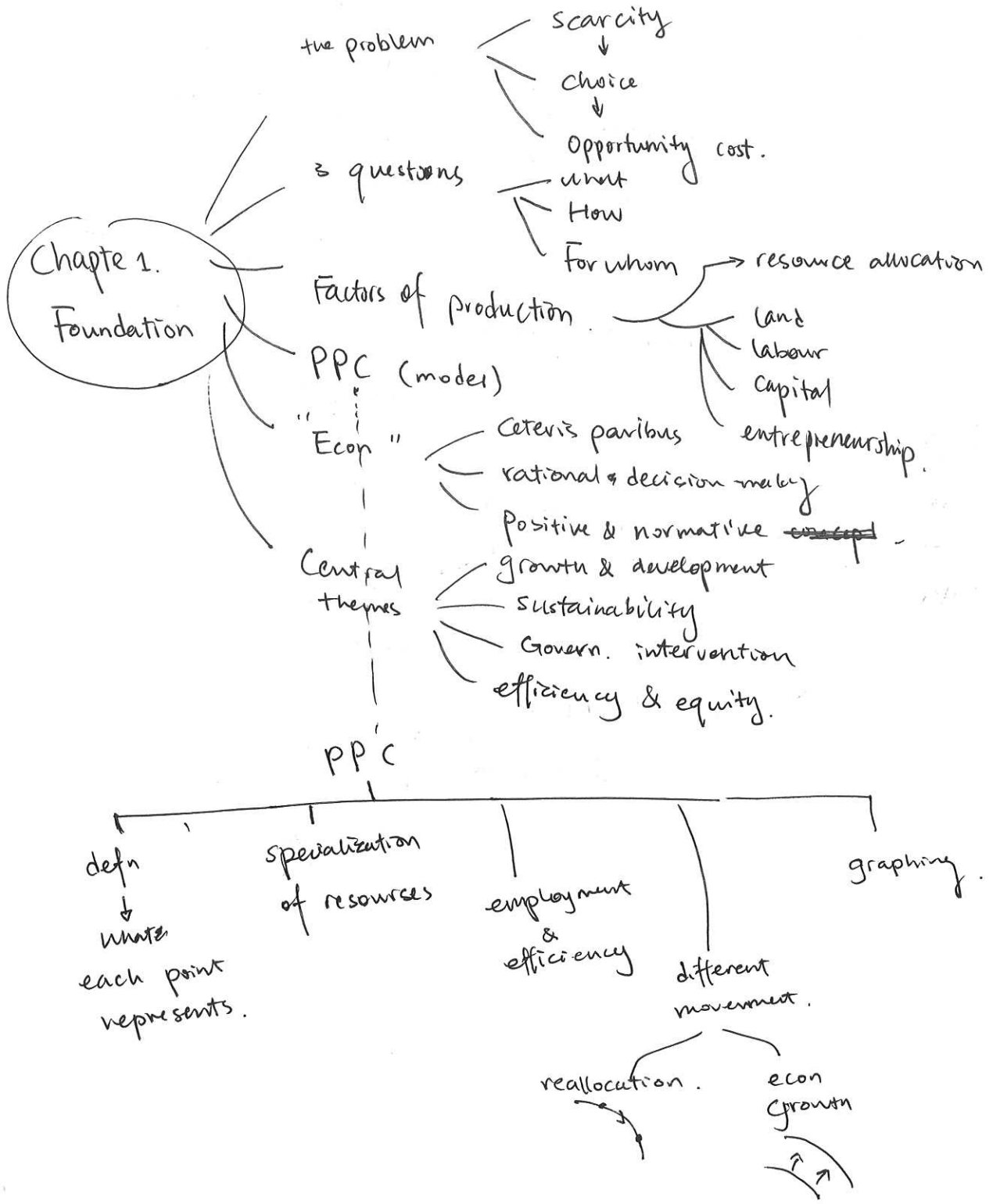
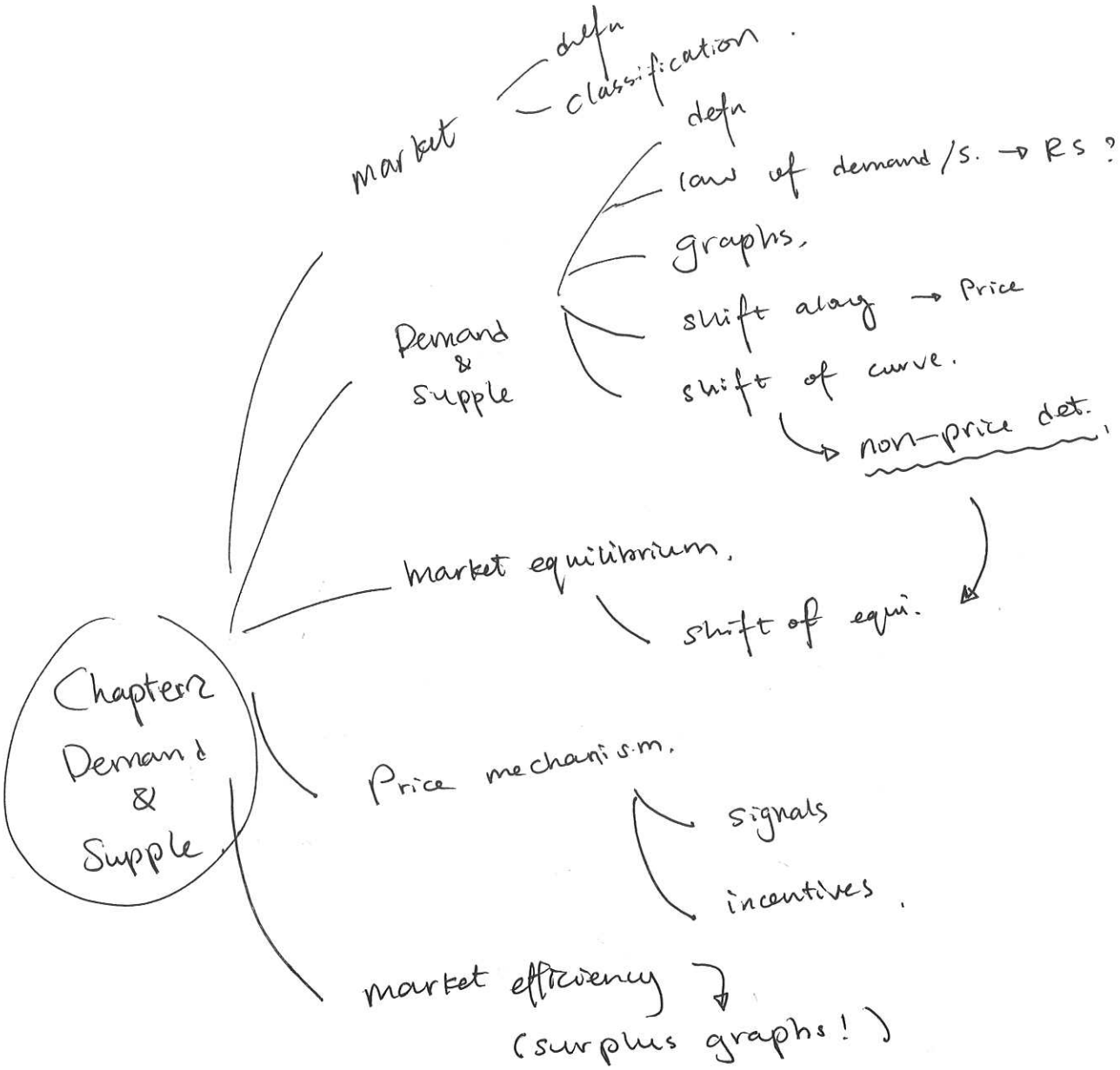
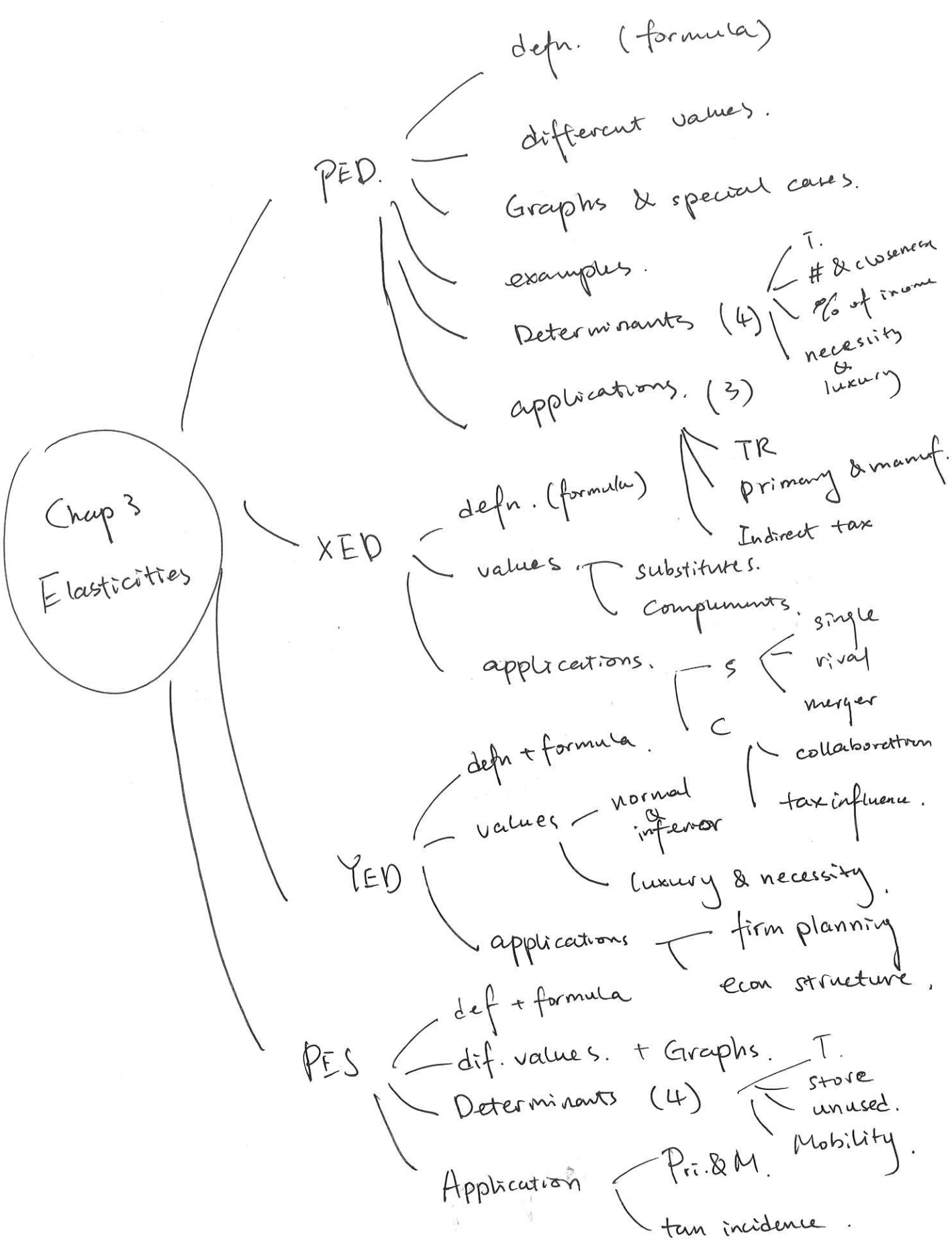
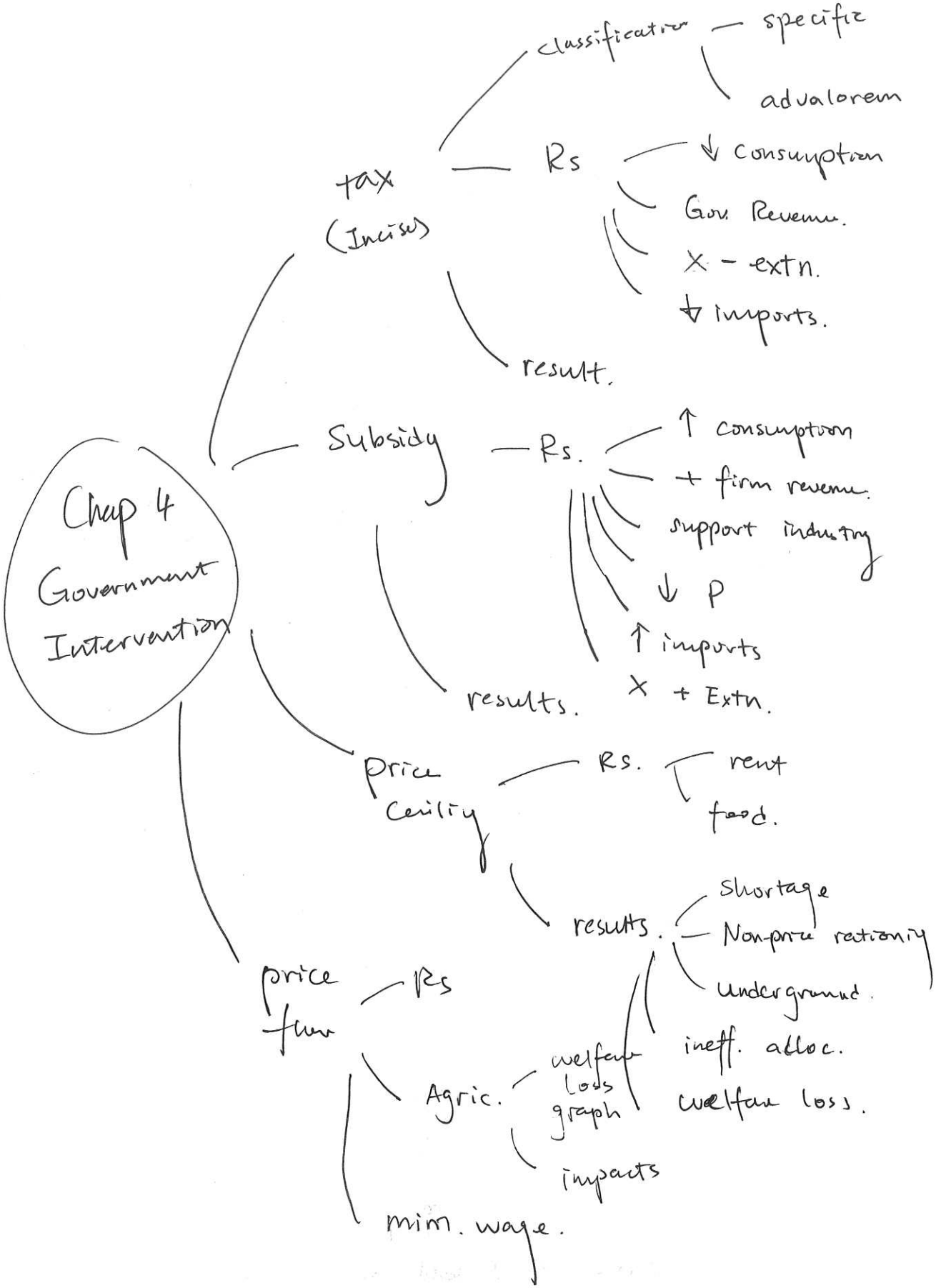



Chapter 2
Demand & Supply
market
defn
classification
Demand & Supply
defn
law of demand / s. → RS ?
graphs.
shift along → Price
shift of curve.
non-price det.
market equilibrium.
shift of equi.
Price mechanism.
signals
incentives
market efficiency
(surplus graphs!)


Chap 3
Elasticities
PED.
defn. (formula)
different values.
Graphs & special cases.
examples.
Determinants (4)
T.
& closeness
% of income
necessity & luxury
applications. (3)
XED
defn. (formula)
TR
primary & manuf.
Indirect tax
values
substitutes.
compliments.
applications.
s
single
rival
merger
c
collaboration
tax influence.
YED
defn + formula.
values
normal & inferior
luxury & necessity.
applications
firm planning
econ structure.
PES
def + formula
dif. values. + Graphs.
Determinants (4)
T.
store
unused.
Mobility.
Application
Pri. & M.
tax incidence.


Chap 4
Government Intervention
tax (Incise)
classification
specific
advalorem
Rs
↓ consumption
Gov. Revenue.
X - extn.
↓ imports.
result.
Subsidy
Rs.
↑ consumption
+ firm revenue.
support industry
↓ P
↑ imports
X + Extn.
results.
price Ceiling
Rs.
rent
food.
results.
Shortage
Non-price rationing
Underground.
price floor
Rs
Agric.
welfare loss graph
ineff. alloc.
welfare loss.
impacts
min. wage.

ECONOMICS GLOSSARY

Chapter 1. Fountations

Scarcity	Limited resources < unlimited wants; results in decision-making & opportunity cost.
Opportunity Cost	The value of the next best alternative forgone; resulted from scarcity.
Efficiency	Scarce resources are all employed and not wasted; (just the right amount is produced) from society's point of view. ↳ or, "best allocation of resources"
Ceteris Paribus	Everything else remains constant.
Factors of Production = Resources	inputs used to produce all g&s that people need and want; including land, labour, capital. entrepreneurship.
Land	all natural resources above the ground (ex forests, rivers, fish) and under the ground (ex oil, natural gas, minerals)
Labour	all human effort that goes into producing g&s, ex. the work done by teachers, builders, etc. There are skilled, semiskilled, unskilled workers.
Capital	man-made factor of production; ex machines, tools, factories, etc.
entrepreneur-ship	Human efforts used to organize the other 3 factors, including risk-taking, managing, innovation.

positive Statement	Used to describe events, and make hypotheses and theories; can either be true or false. ex. "the rate of inflation is 5%."
Normative Statement	Used to determine the goals of economic policies; cannot be true or false. ex. "the rate of inflation is too high."
Rational Economic Decision-making	decision-makers act in their best self-interest; try to maximize the satisfaction from decision-making. ex. consumer: ↑ benefit; producer: ↑ profit labour: ↑ wages
Resource Allocation.	Assigning particular resources to the production of particular g&s.
Over allocation of Resources.	Too many resources are assigned to the production of particular g&s; there is overproduction.
Reallocation of Resources	Changing allocation of resources; hence the combination and quantities produced.
Misallocation of Resources.	Assigning the wrong amount of resources to the production of particular g&s. → overallo./ underallo.

Chapter 2. Demand & Supply

Market	where buyers & sellers gather together to make an exchange. ex. fish market; shop; Internet; labour market.

Competitive market	A market where the price of a good or service is determined through the interaction of many small buyers & sellers. so that no one can influence the price.
Demand	the quantity of a good that consumers are willing and able to buy at various prices over a period of time, ceteris paribus.
Law of Demand	∃ a negative casual relationship btw P and Q. of a good demanded.
Marginal Benefit.	The additional benefits derived from consuming one more unit of a good. ; equal to D curve. As we buy more units of a good, MB ↓.
Individual Demand	the demand of a single buyer.
Market Demand	the demands of all the buyers in a market. found by adding up all the individual demands for each Price.
Normal Goods	Consumer ↑, D ↑. Most goods are normal goods.
Inferior Goods	Income ↑. D ↓. ex. Second-hand clothes; used car; bus tickets.
Substitutes	Goods that satisfy similar need. XED > 0 ex. meat and fish.
Complements	Goods that are jointly consumed. XED < 0. ex tennis balls & rackets.
Indirect Tax	tax on spending to buy g&s. paid in directly to the gov.

Subsidy — payment by the gov. to firms in order to lower costs and price, and increase supply.

Joint Supply — Goods derived from a single product and it's not possible produce one ~~more~~ w/o the other.
Ex. Whole milk → butter & skim milk.

Competitive Supply — Goods that share the same resources.
It's impossible to produce more of one w/o less of the other. Ex. onions & potatoes on the same land.

Market Equilibrium — Position of balance between D & S.
Occur when $Q_d = Q_s$.

Surplus (shortage) — excess supply (demand.)
$P > P_e$ ($P < P_e$)

Price as Signals. — Prices commucate info to decision-makers.
Ex. P↑ signal shortage.

Price as Incentives — Prices motivate decision-makers to respond to the info. Ex. P↑ → S↑, D↓

Consumer Surplus. — Benefit received by consumers who buy a good at a lower price then the price they are willing to pay; = area under D. up to P_e.;
Maximized in a free market.

Social Surplus. — Sum of producer and consumer surplus.
Maximized in a free market.

Chapter 3. Elasticities.

PED. responsiveness of Q demanded to change in P.

$$= \frac{\% \Delta Q}{\% \Delta P}.$$

Price (in)elastic Demand $PED > 1$ $(0 < PED < 1)$; $\% \Delta Q > \% \Delta P$ $(<)$.

necessity a good that is necessary to a consumer

luxury a good that is not essential.

Total Revenue. $P \times Q$. ; A firm's total earnings from selling its output.

Primary Commodities. Goods arising from the factor of production land; including all agricultural products, fishing, forestry & extractive products (ex oil, mineral ...)

XED. Responsiveness of demand for one good to change in price of another good.

$$\frac{\% \Delta Q_x}{\% \Delta P_y}$$; involve shift of D curve.

YED Responsiveness of demand for good X to changes in income. $\dfrac{\% \Delta Q_x}{\% \Delta Y}$;

involves shift of D curve.

PES. responsiveness of Qs to change in P.

$$\frac{\%\Delta Q_s}{\%\Delta P}$$ → along S curve.

Chapter 4. Government Intervention.

Incise Tax = indirect tax.

Specific Tax. the tax is a specific amount imposed per unit of the good;
Results in a parallel shift of the S curve.
the vertical dif. btw initial & after-tax S curve is equal to tax per unit.

Ad valorem tax The tax is a percentage of the price of the good; results in S curve steeper than the original S curve.

Price Controls. Gov. intervention in the market, involving the setting of price ceiling, or price floors.
Thus preventing the market from reaching a market-clearing equilibrium price.

Price Ceilings A maximum price on a good set by the gov. that is below the equil. price of the market. resulting in a shortage.

Minimum Wage

A min price of labor set by the gov. to protect low-skilled workers and ensure they achieve a minimum standard of consumption.
It's an application of a minimum price in the labour market.

ECONOMICS QUESTIONS

Chapter 1. Foundations

- Why PPC curvature?

  Because resources are specialized and are not equally well-suited for the production of all goods.

  It is ↑ ~~cost~~ costly to produce ↑ amounts of some goods.

- Factors that shifts PPC outwards:
  - ↑ in factors of production. ← natural, human, physical.
  - ↑ technology
  - ↑ institution

Chapter 2. Demand & Supply.

- Why D is downward sloping (Why law of D)
  1. Income effect.
  2. Substitute effect.
  3. Leaving of diminishing marginal benefit.

- Non-price determinants of D. (→ D shift)
  1. Change in taste & preference.
  2. Change in income ← inferior, normal
  3. Demographic change
  4. Price of related goods ← substitutes, complements.

- Application of YED

1 For producers.

- planning investment in the future.

Ex. Greece. Recession. → growth in fast food.

2. For economy. (structure)

- primary sector% ↓.
- manufacturing % ↑
- service % ↑↑↑.

- Determinants of PES.

1. time
2. Mobility of FOP.
3. Unused capacity of firms.
4. Ability to store of stocks.

- Application of PES.

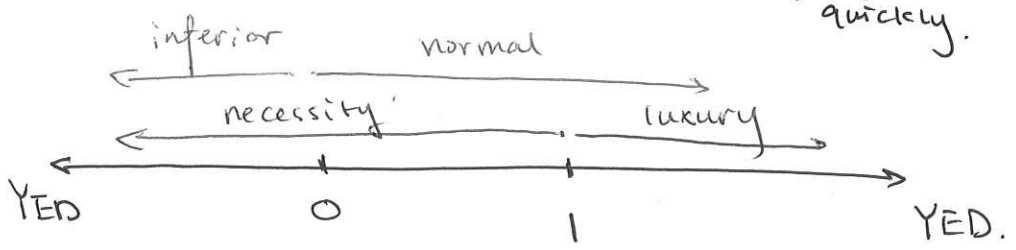
1. Primary Commodities & manufactured products.
2. tax incidence (burden)

- Summary of elasticities.

PED < 1.	inelastic demand.	gasoline. food.
PED > 1	elastic demand	expensive holidays.
XED > 0	Substitutes	orange & apple.
XED = 0	not related.	tennis ball & racket
XED < 0	complements	pizza & pencil.

→ Continued.

YED < 0	inferior	used cars / clothes.
YED > 0	normal	new cars / clothes
YED < 1	necessity	food, medicine.
YED > 1	luxury.	expensive cars. many services.
PES < 1	inelastic supply	oil. agricultural products
PES > 1	elastic supply	anything can be produced quickly.



Chapter 4. Government Intervention

- Why indirect tax ?
  1. Gov. revenue. → finance gov. expenditures.
  2. On harmful goods. (ex cigarettes) to ↓ consumption.
  3. improve allocation of resources when ∃ - externalities.
  4. ~~trad~~ tariffs. → ↓ quantity of imports.
- Why subsidies ?
  1. ↑ firm's revenues (ex. agricultural products to support farmers.)
  2. Support particular industries. (ex. Renewable energy).

3. ↓ P for consumers.
   (ex. food price for low-income ppl)
4. Encourage consumption of g & s that is considered disirable for society.
   (ex. education.)
5. Sell more in export market
6. improve allocation when ∃ + externalities.

- Subsidy is ↓ for domestic producers;
  ↑ for foreign producers.

- Why price ceiling?
  - rent control.
  - food control

  → make some necessities affordable to poor people.

- Consequences of price ceiling:
  1. Shortage
  2. Non-price rationing mechanisms
  3. Underground market.
  4. Inefficient resource allocation. (underallo.)
  3. Welfare loss for society.

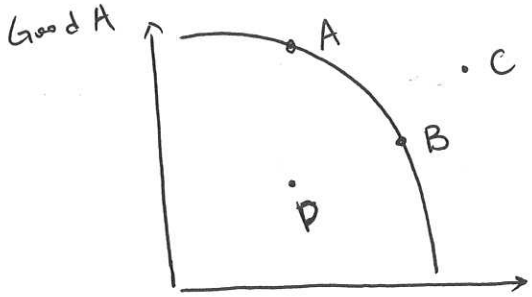
- Why price floor?
  - support farmer's income by ↑ P they received.
  - support the wages of low-income workers

- Consequences of Agricultural price floors.
  1. surplus
  2. Inefficient firms.
  3. Gov. measures to dispose the surplus.
     - storage cost
     - export requires covering for higher price
     - destroy revolves waste.
  4. Inefficient (over)allocation of resources.
  5. Welfare loss.
  6. ⇊ for stakeholders in other countries.

- Consequences of min wages.
  1. illegal workers
  2. Misallocation of resources in the labour market
  3. Misallo———— ——" product market.
  4. Firms ⇊. as cost ↑
  5. Consumer ⇊ as P ↑, Q ↓
  6. Workers : some ⇊. some ⇈.

ECONOMICS IN GRAPHS

Chapter 1: Foundations



A.B: efficient.
C: unattainable.
D: inefficiency

Figure 1. Production Possibilities Curve.

Chapter 2: Demand & Supply.

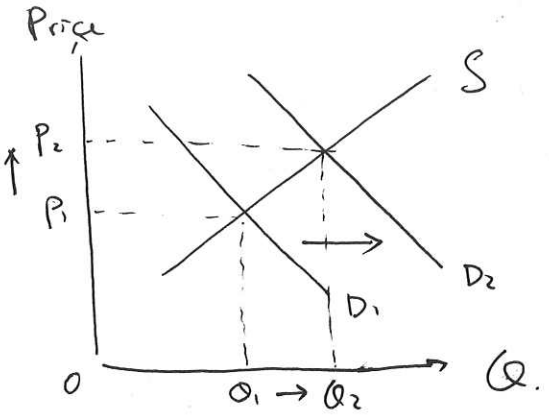


Figure 2.1. Change in D

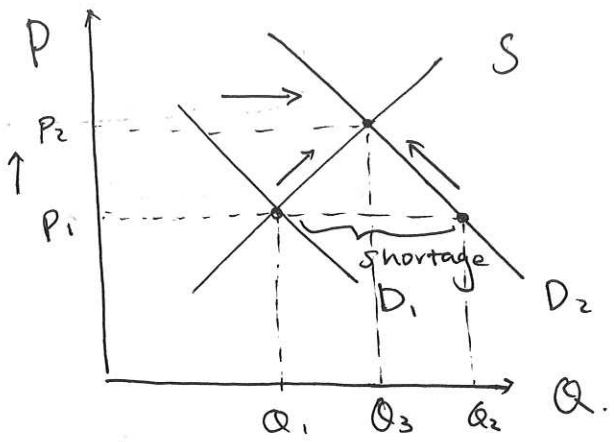
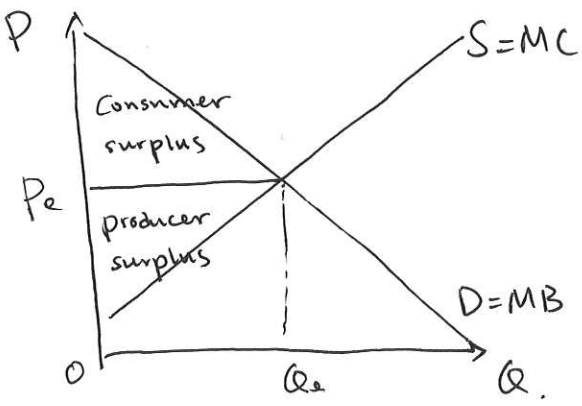


Figure 2.2. Price as signal and incentive.



[Allocative efficiency: at market equil. MB=MC and social surplus is maximized.]

Fig. 2.3. Consumer & Producer Surplus

Chapter 3. Elasticities

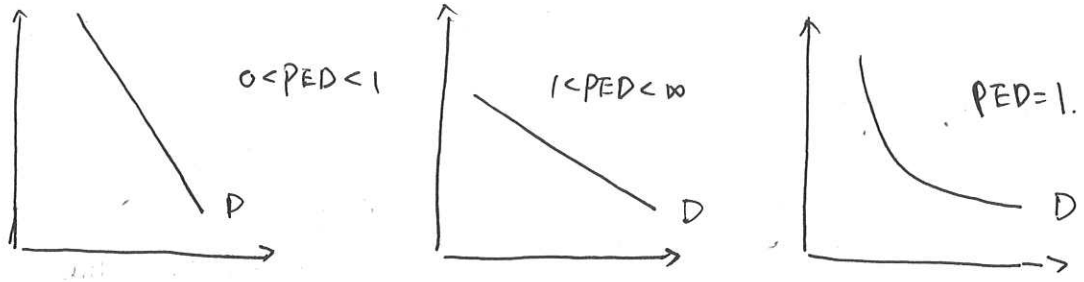


Fig. 3.1. Freeq. encountered PED's.

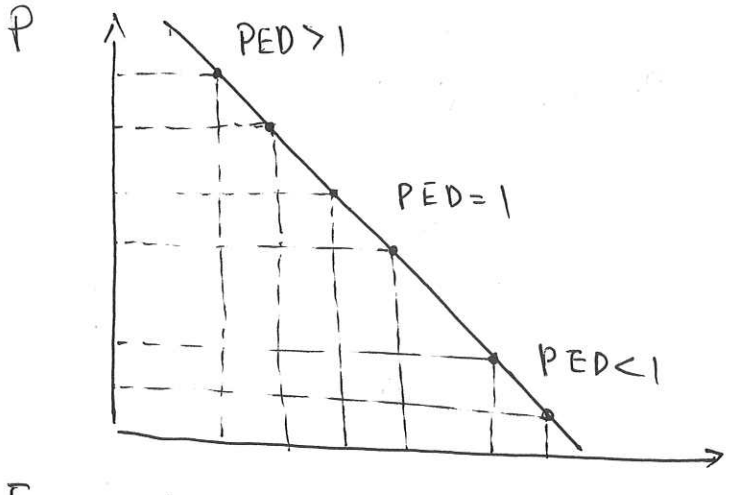


Fig. 3.2. Variability of PED along a straight-line D.

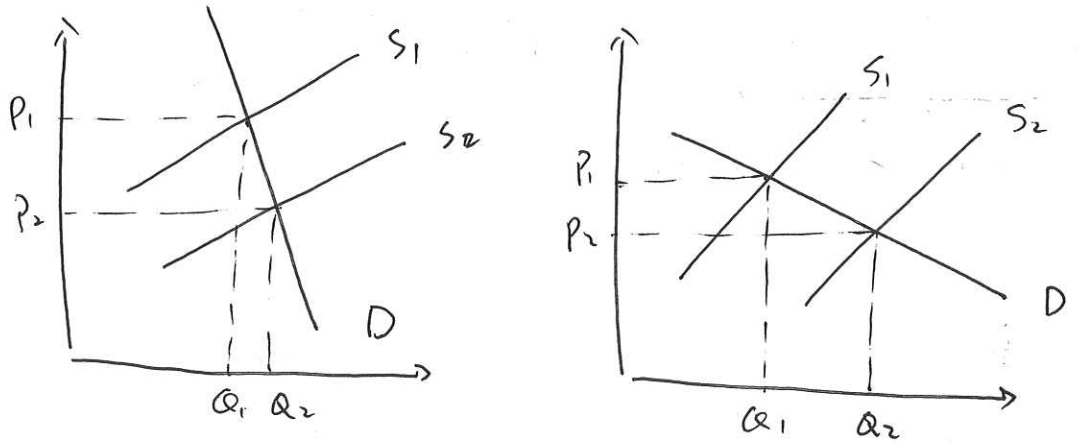


Fig. 3.3. Price fluctuations are larger for primary commodities because of low PED.

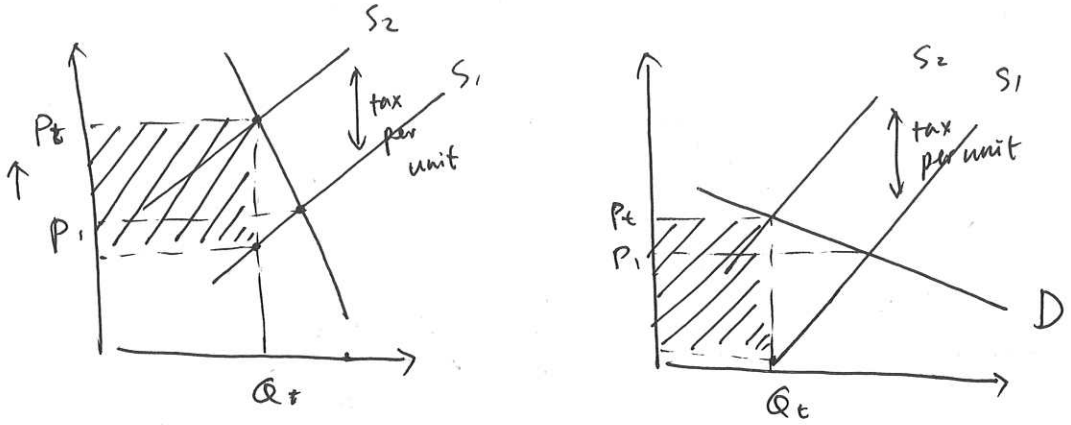


Fig. 3.4. Indirect tax & tax Revenue.

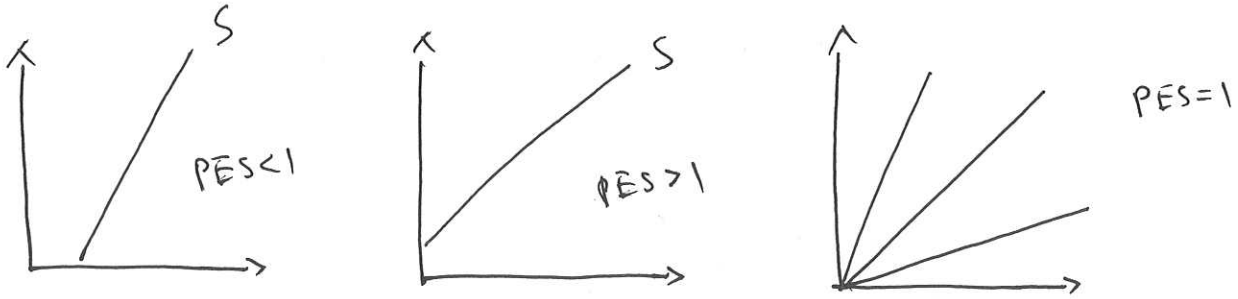
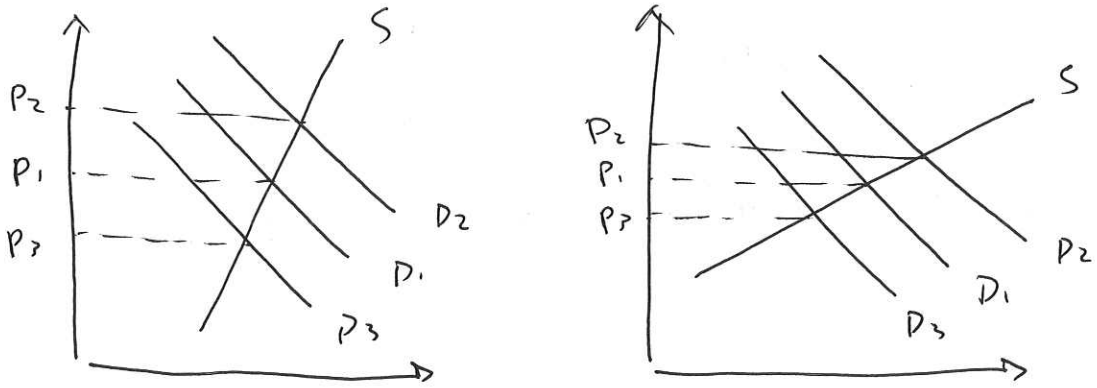


Fig 3.5. PES & special cases.



Chapter 4. Government Interventions

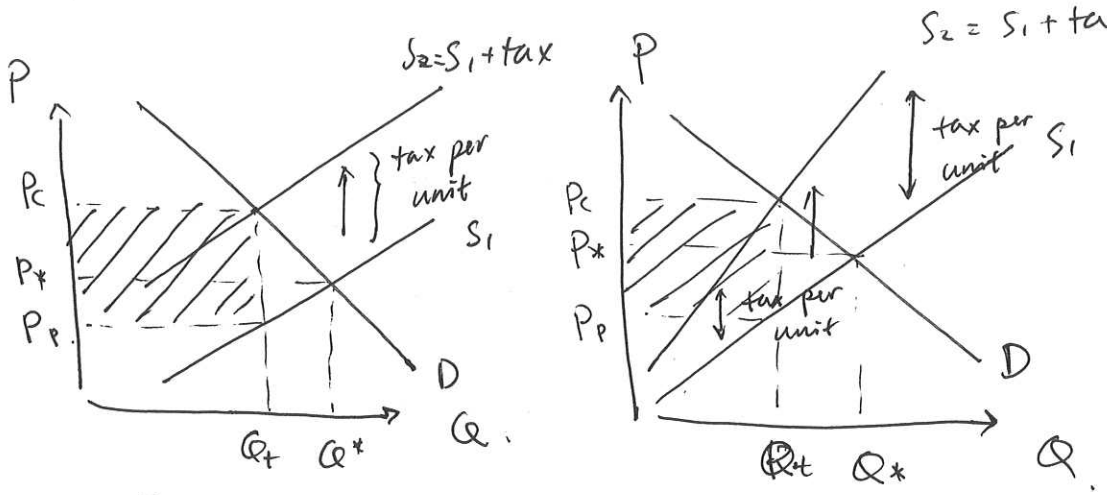


Fig. 4.1. Specific & Ad valorem tax

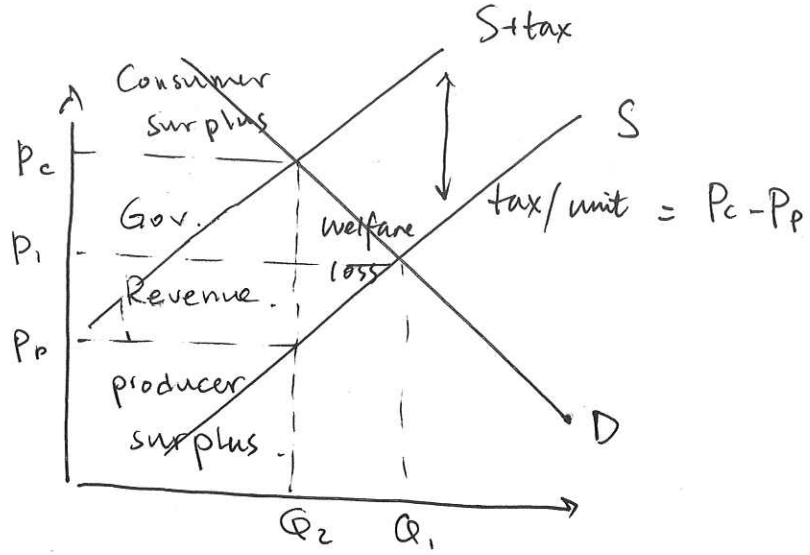


Fig. 4.2. Surplus due to indirect tax.

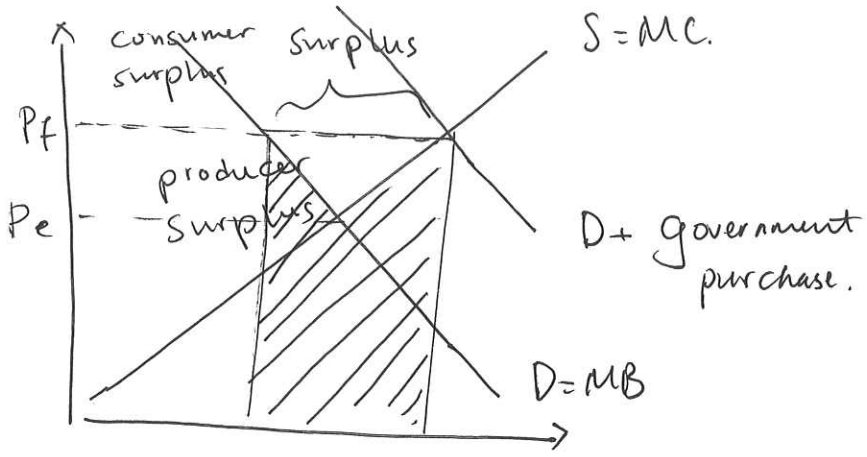


Fig. 4.3. Welfare impacts of a price floor for agricultural products.

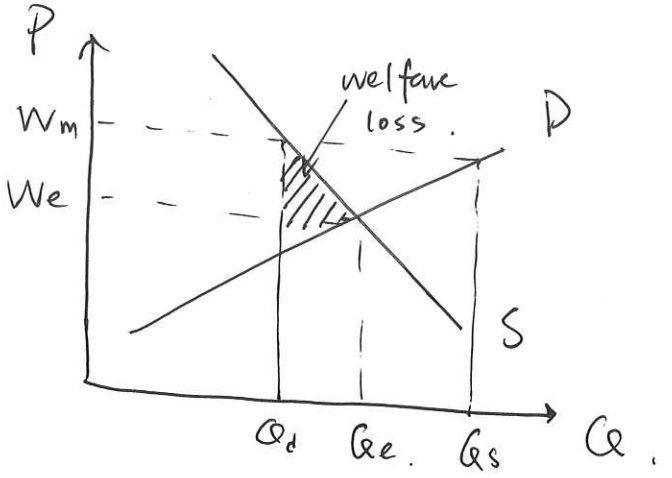


Fig 4.4. Welfare impact of a minimum wage.

ECONOMICS EXAMPLES.

Micro

Perfectly elastic demand.

perfect competition.

ex. oranges in Florida.

Perfectly inelastic demand.

ex drug addiction.

Perfectly inelastic supply

ex. original antique furniture.