Section 2 The allocation of resources

- Chapter 5 Microeconomics and macroeconomics
    - The difference between microeconomics and macroeconomics
        - microeconomics
            - the study of the behavior and decision of households and firms, and the performance of individual markets
        - macroeconomics
            - the study of the whole economy
        - the connection between macroeconomics and microeconomics
    - Decision makers in microeconomics and macroeconomics
        - the aims of decision markers
- Chapter 6 The role of markets in allocating resources
    - The three key allocation decisions
        - what to produce?
        - how to product it?
        - who is to receive the products produced?
    - Different economic system
        - planned economic system
        - directives
        - mixed economic system
        - market economic system
    - A market economic system
        - price mechanism
        - capital-intensive
        - labour-intensive
    - The role of the price mechanism
        - demand
        - supply
        - market equilibrium
        - market disequilibrium
- Chapter 7 Demand
    - Definition of demand
        - the willingness and ability to buy a product

- Demand and price
  - Demand and price are inversely related.
- Individual and market demand
  - market demand
  - aggregation
  - a demand schedule
  - the effect of a change in price on demand
- Conditions of demand
  - increase in demand
    - a rise in demand at any given price causing the demand curve to shift to the right
  - decrease in demand
    - a fall in demand at any given price, causing the demand curve to shift to the left
  - causes of changes in demand
    - changes in income
    - changes in the price of related products
    - advertising campaigns
    - changes in population
    - changes in taste and fashion
    - other factors

- Chapter 8 Supply
  - Definition of supply
    - the willingness and ability o sell a product
  - Supply and price
    - In contrast to demand, supply is directly related to price
  - Individual and market supply
    - a supply schedule
    - the effect of a change in price on supply
      - extension in supply
      - contraction in supply
  - Conditions of supply
    - increase in supply
      - a rise in supply at any given price, causing the supply curve to shift to the right.
    - decrease in supply
      - a fall in supply at any given price, causing the supply curve to shift to the left.
    - causes of changes in suplly

            - changes in the costs of production(unit cost)
            - improvements in technology
            - taxes
            - subsidies
            - weather conditions and health of livestock can crops
            - prices of other products
            - disasters and wars
            - discoveries and depletions of commodities
- Chapter 9 Price determination
    - 1. How prices are determined
    - 2. Market equilibrium
        - the price where demand and supply are equal
    - 3. Moving form market disequilibrium to market equilibrium
        - excess supply
        - excess demand
        - disequilibrium
- Chapter 10 Price change
    - The effect of change in demand
    - The effect of changes in supply
    - Changes in demand and supply
- Chapter 11 Price elasticity of demand
    - 1. Definition of price elasticity of demand(PED)
        - a measure of the responsiveness of the quantity demanded to a change in price
        - PED=percentage change in quantity demanded/percentage change in price(%ΔQD/%ΔP)
    - 2. Calculating PED
        - the percentage change in quantity demanded
            - change in demand/original quantity demanded×100
        - the percentage change in price
            - change in price/original price×100
    - 3. Interpretation of PED
        - the PED figure provides two pieces of information, sign and size
    - 4. Elastic and inelastic demand
        - elastic demand
        - Inelastic demand
    - 5. Determinants of price elasticity of demand

- differences in PED
    - other degrees of elasticity
        - perfectly elastic demand
        - perfectly inelastic demand
        - unit elasticity of demand
    - PED and the total spending on a product and revenue gained
  - 6. Changes in PED
  - 7. Implications of PED for decision-making
    - A change in a product's price is often the main influence on its demand.
- Chapter 12 Price electricity of supply
  - Definition of price elasticities of supply
    - a measure of the responsiveness of the quantity supplied to a change in price.
    - PES=Percentage change in quantity supplied/Percentage change in price(%ΔQS/%ΔP)
  - Calculating PES
    - the percentage change in quantity supplied
      - change in quantity supplied/original quantity supplied×100
    - the percentage change in price
      - change is price/original price×100
  - Interpretation of PES
    - As the quantity supplied and price are directly related, PES is a positive figure.
  - Elastic and inelastic supply
    - elastic supply
      - when the quantity supp lied changes by a greater percentage than the change in price.
    - inelastic supply
      - when t he quantity supplied changes by a smaller percentage than the change in price.
  - Determinants of price elasticity of supply
    - the time taken to produce it
    - the cost of altering its upply
    - the feasibility of storing it
    - other degrees of PES
      - perfectly inelastic supply
      - perfectly elastic supply
      - unit PES
  - Changes in PES
    - The supply for most of the products becomes more elastic as the time period increases

    - Implications of PES for decision-making
        - Consumers benefit from supply being elastic.
- Chapter 13 Market economic system
    - The market economic system
        - the importance of competition and incentives
        - private and public sectors
    - The advantages of a market economic system
        - a market economic system should be very responsive to changes in consumer demand
        - resources should change automatically and quickly to reflect changes consumer
        - there is choice
        - costs and prices may be low
        - quality may be high
    - The disadvantages of a market economic system
        - market failure
        - Consumers and private sector firms may only take into account the costs and benefits to themselves, and not the costs and benefits of their decisions to others.
        - Competition between firms should ensure efficiency but, in practice, there may be little competition
        - Even when there is competition and firms want to respond to desires of consumers, they may not be able to do this
        - Firms will not make products unless they think they can charge for them.
        - Advertising can distort consumer choice.
        - As well as market forces sometimes failing to achieve efficiency, they can also result in what may be regarded to be inequitable (unfair) outcomes.
        - Differences in income will increase over time.
    - Allocative efficiency
        - Allocative efficiency occurs when resources are allocated in a way that maximises consumers' satisfaction.
    - Productive efficiency
        - when products are produced at the lowest possible cost and making full use of resources.
    - Dynamic efficiency
        - when products are produced at the lowest possible cost and making full use of resources.
    - Examples of the different economic systems
        - Changes in economic systems
- Chapter 14 Market failure
    - The nature of market failure

    - Market failure occurs when market forces fail to produce the products that consumers demand, in the right quantities and at the lowest possible cost.
- Failure to take into account all costs and benefits
    - third parties
    - social benefits
    - social costs
    - private benefits
    - private costs
    - external benefits
    - external costs
- Information failure
    - For consumers to buy the products that will give them the highest possible satisfaction at the lowest possible prices, they have to be fully informed about the nature of the products on offer, the benefit s they can receive from them and their prices.
- Merit goods
    - For consumers to buy the products that will give them the highest possible satisfaction at the lowest possible prices, they have to be fully informed about the nature of the products on offer, the benefit s they can receive from them and their prices.
- Demerit goods
    - For consumers to buy the products that will give them the highest possible satisfaction at the lowest possible prices, they have to be fully informed about the nature of the products on offer, the benefit s they can receive from them and their prices.
- Public and private goods
    - public good
        - a product which is non-rival and non-excludable and hence needs to be financed by taxation.
        - They are non-rejectable. It is not possible for people to reject the services of the police, for example.
        - The cost of supplying a public good to one more consumer is often zero. Defending one more person in the country will be unlikely to cost the army anything.
    - private goods
        - a product which is both rival and excludable.
- Abuse of monopoly power
    - monopoly
        - a single seller
    - price fixing
        - when two or more firms agree to sell a product at the same price.

- Immobility of resources
    - To achieve allocative efficiency, it is necessary for resources to move from producing products that are decreasing in demand towards those which are experiencing an increase in demand .
- Short-termism
    - There is a risk that market forces may not result in sufficient resources being devoted to capital goods.

- Chapter 15 Mixed economic system
    - A mixed economy
        - The government should take into account all the costs and benefits that will arise from their decisions.
        - government can also encourage the consumption of products
        - Government can discourage the consumption of products that
        - Government can finance the production of products
        - Government can seek to prevent private sector firms from exploting consumers by charging high prices
        - Government is likely to seek to make maximum use of resources
        - There is a possibility
        - Government can help vulnerable groups, ensuring that they have access to basic necessities.
    - Maximum and minimum price
        - rationing
            - a limit on the amount that can be consumed
        - lottery
            - the drawing of ticket to decide who will get the products
    - Government measures to address market failure
        - subsidies and indirect taxes
        - competition policy
        - environmental policies
        - regulation
        - nationalisation and privatisation
            - Nationalisation
                - moving the ownership and control of an industry from the private sector to the government.
            - Public corporation
                - a business organisation owned by the government which is designed to act in the public interest.

- advantages that can be claimed for state-owned enterprises
  - State-owned enterprises base their decisions on the full costs and benefits involved.
  - they can be used to influence economic activity
  - In cases where it is practical to have only one firm in the industry
  - Owners hip of a whole industry by the government makes planning and coordination easier
  - It is important to ensure t hat basic industries
- disadvantages associated wit h state-owned enterprises.
  - They can be difficult to manage and control
  - They may become inefficient
  - They will need to be subsidised if they are loss making
- direct provision
- unfairness
- effectiveness of government intervention
- a development of effectiveness of government intervention
  - cost benefit analysis(CBA)
    - : a method of assessing investment projects which takes into account, social costs and benefits.
  - multinational companies(MNCs)
    - companies which produce in more than one country.