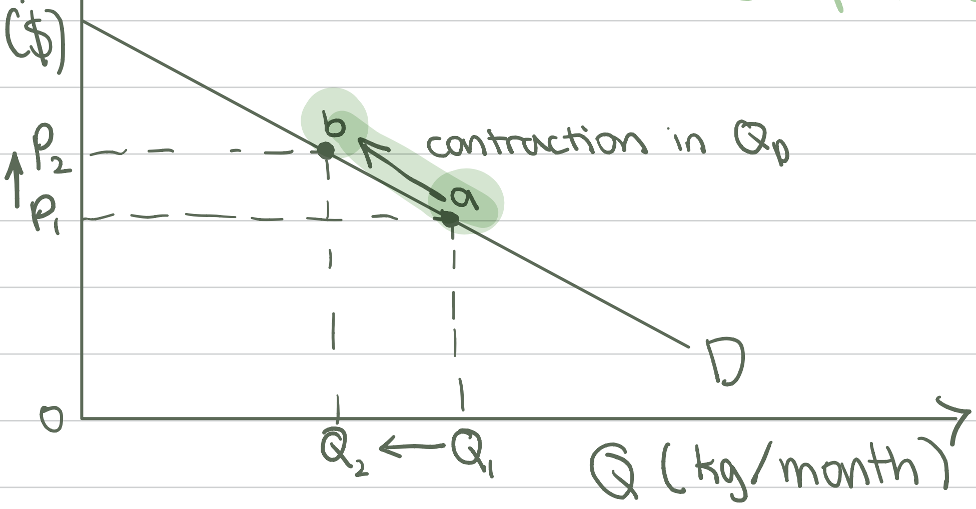
Microeconomics (Diagrams)

DEMAND

Movement along demand curve

price is the only factor that changes, "ceteris paribus"

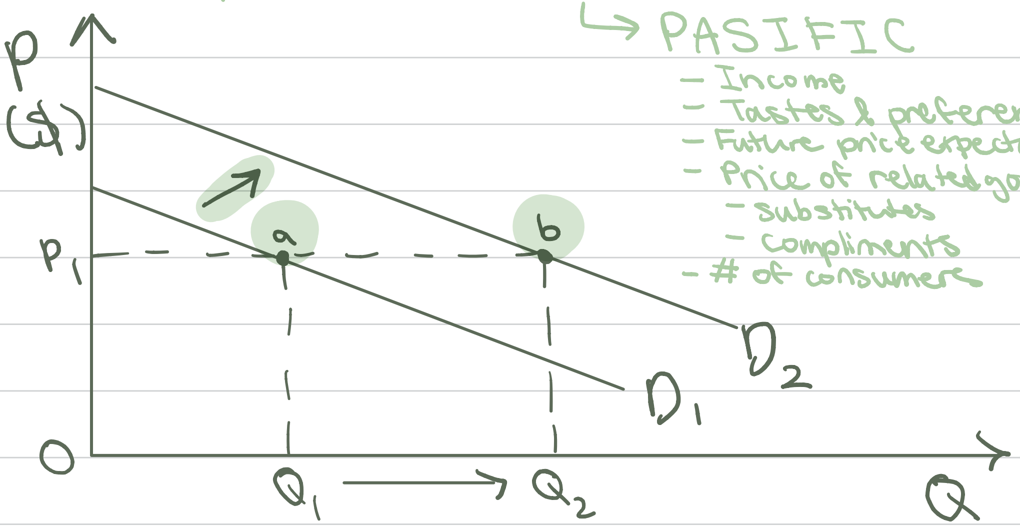


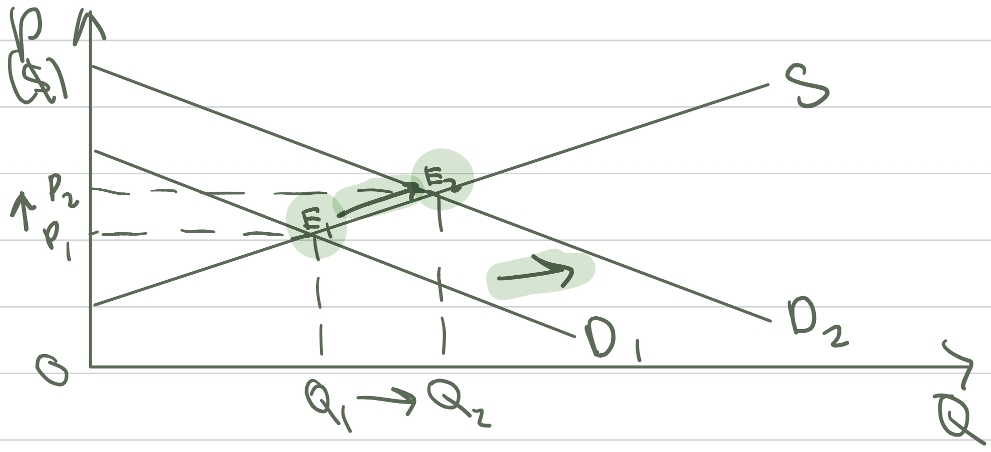
Shift on demand curve

"non-price determinants of demand"

↳ PASIFIC

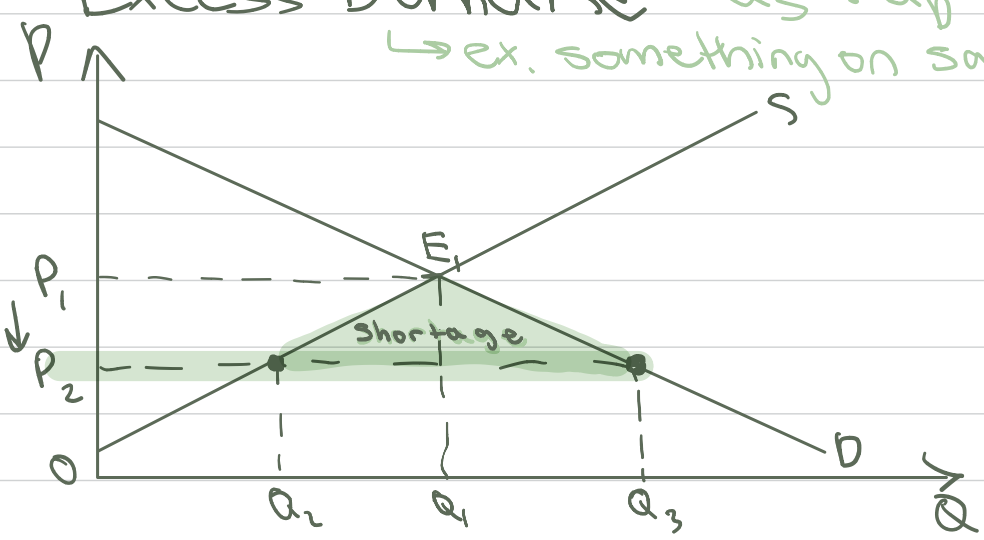
- Income
- Tastes & preferences
- Future price expectation
- Price of related goods
  - substitutes
  - compliments
- # of consumers





Excess Demand $Q_S < Q_D$

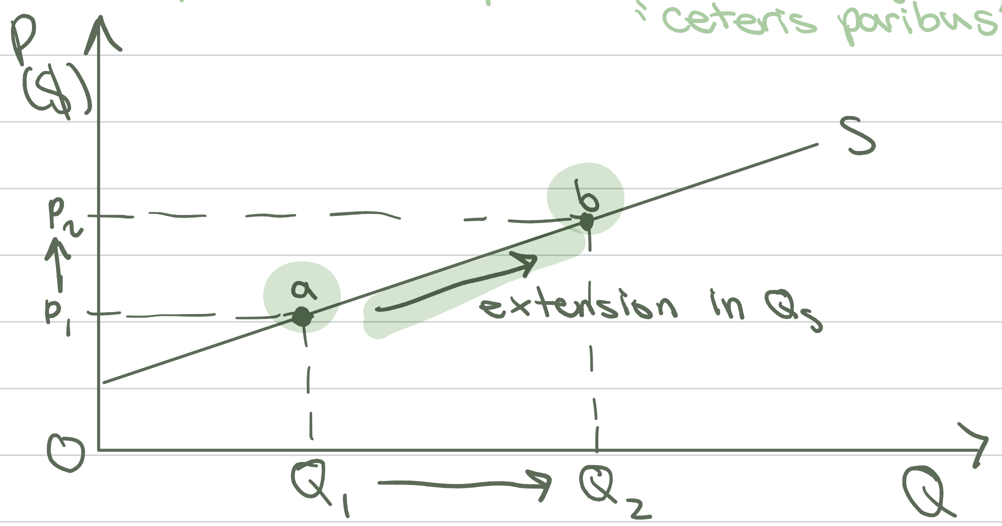
↳ ex. something on sale



SUPPLY

Movement along supply curve

price is the only factor that changes, "ceteris paribus"

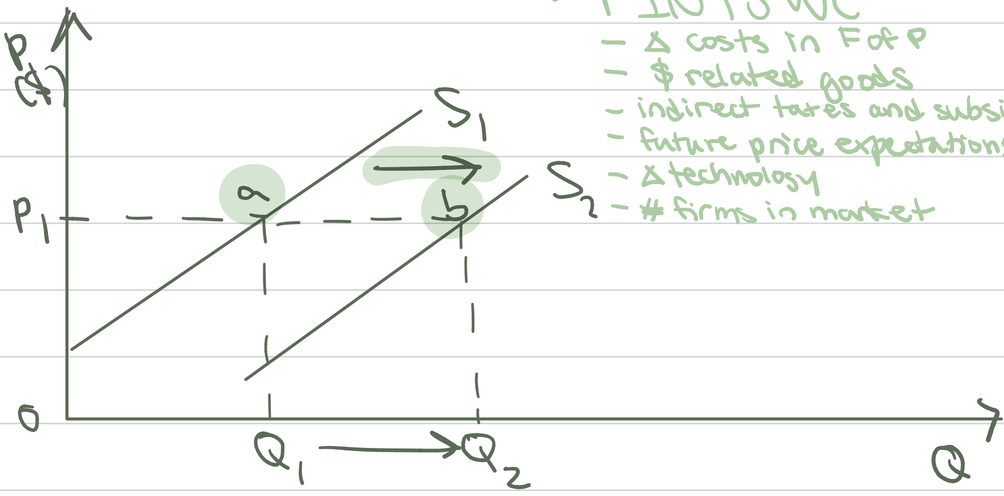


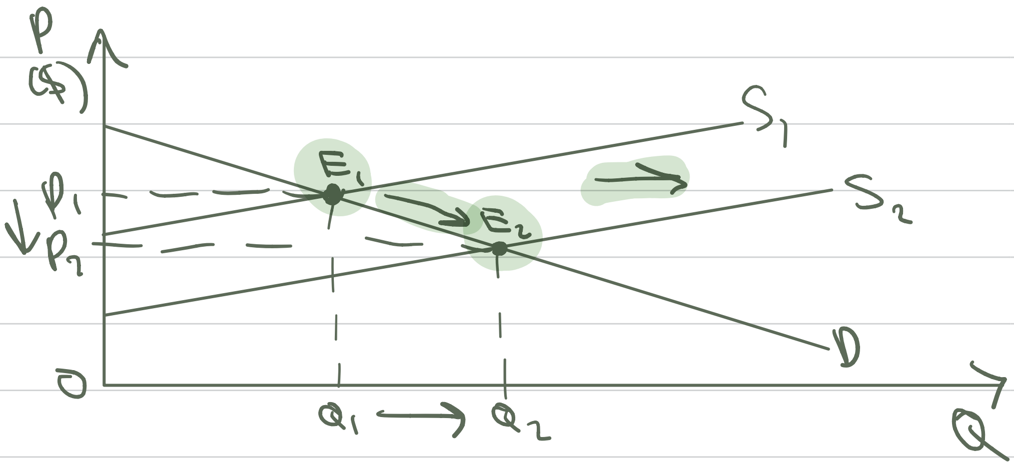
Shift on supply curve

"non-price determinants of supply"

↳ PINTSWC

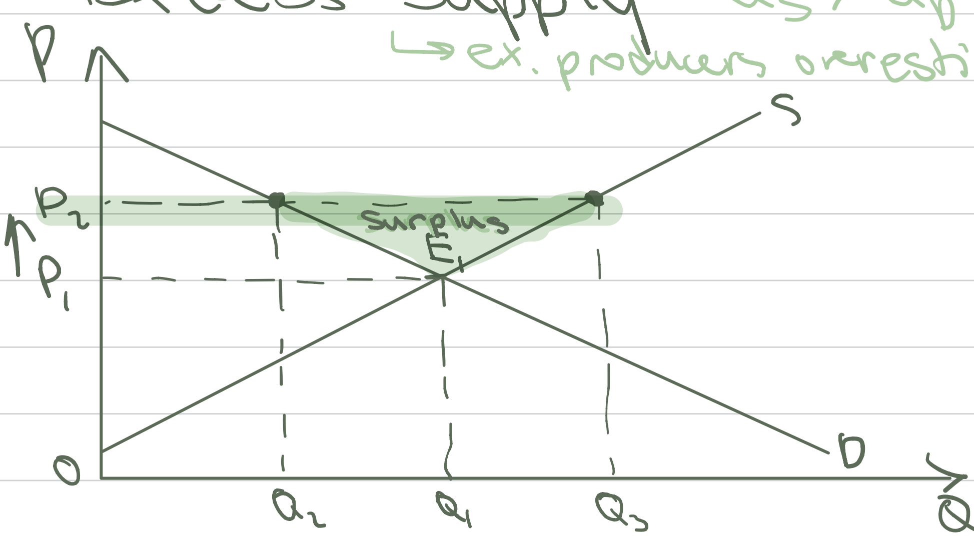
- Δ costs in F of P
- $ related goods
- indirect taxes and subsidies
- future price expectations
- Δ technology
- # firms in market





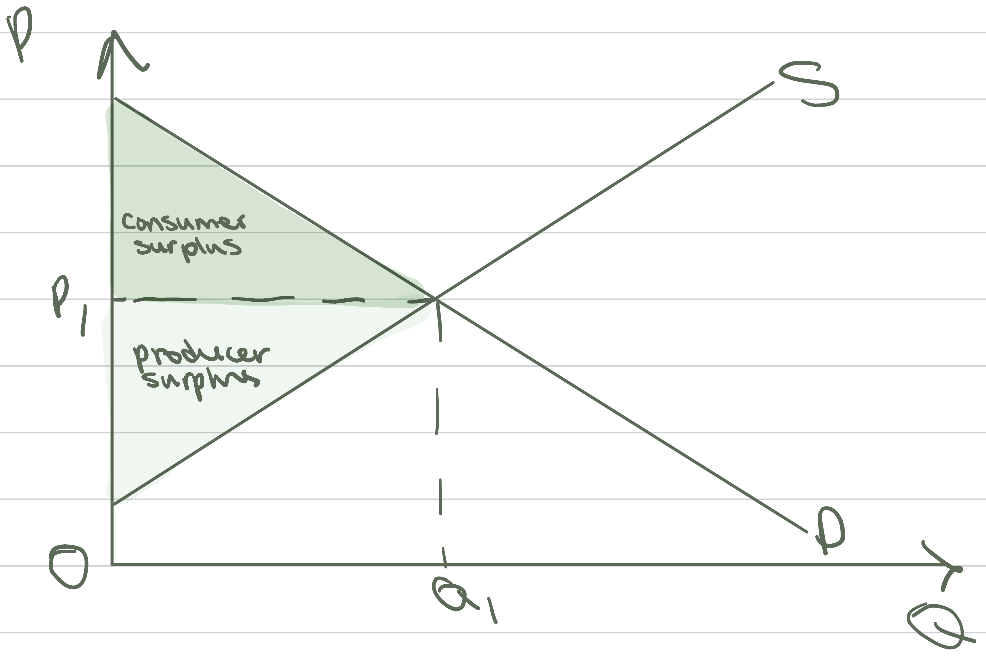
Excess Supply $Q_S > Q_D$

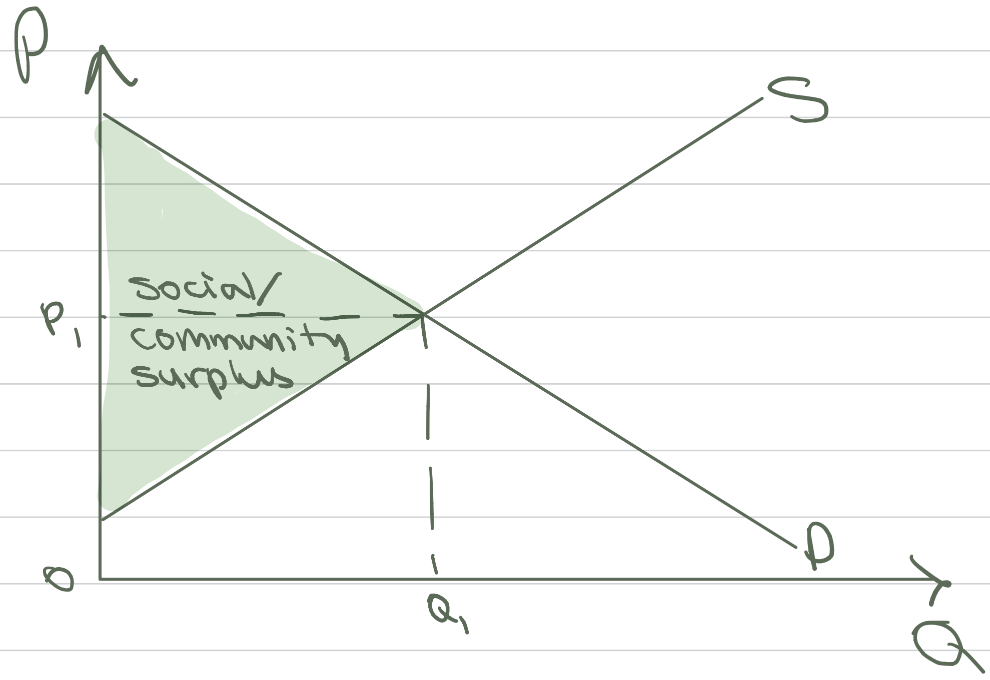
↳ ex. producers overestimate



$\frac{1}{2}bh$

Areas of producer, consumer, and social surplus

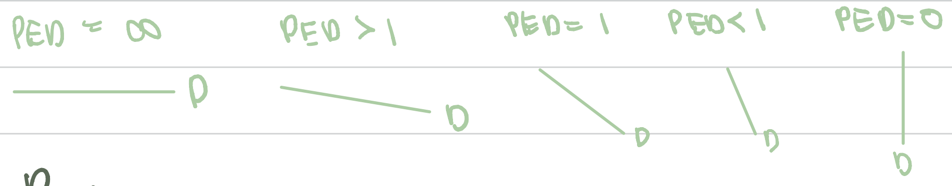


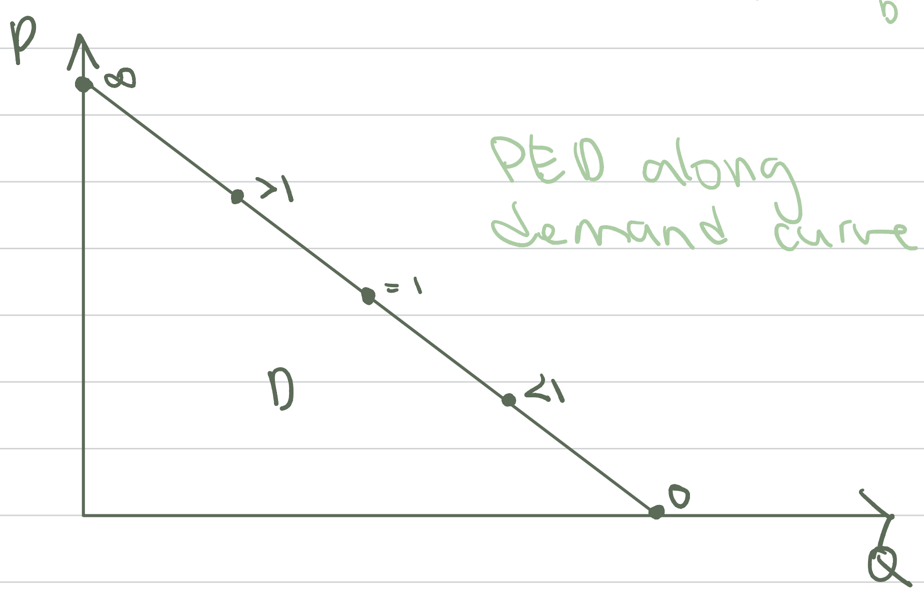


DEMAND

Demand Elasticity

$$PED = \frac{\frac{Q_2^D - Q_1^D}{Q_1^D}}{\frac{P_2 - P_1}{P_1}}$$

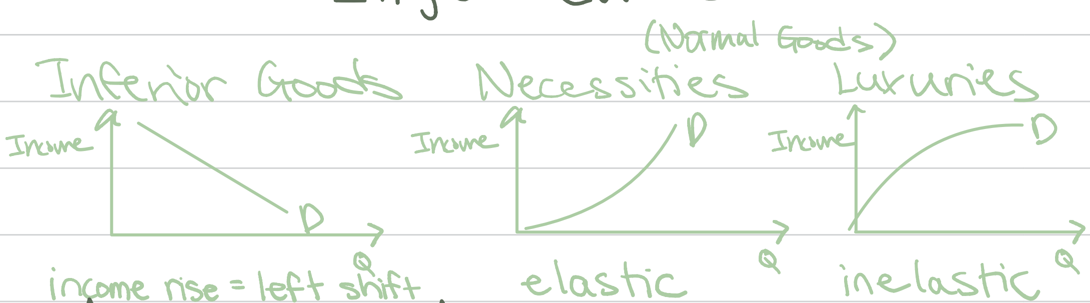


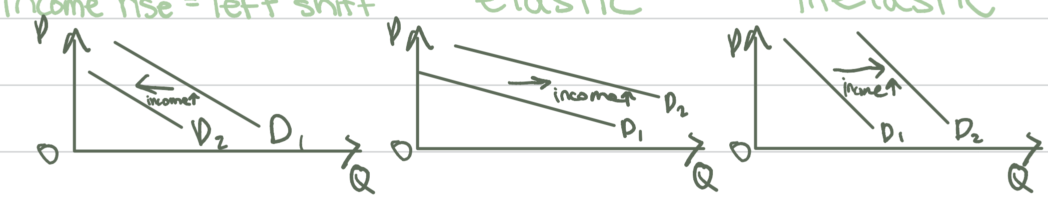


Income Elasticity (YED)

$$YED = \frac{\frac{Q_2^D - Q_1^D}{Q_1^D}}{\frac{Y_2 - Y_1}{Y_1}}$$

Engel Curve

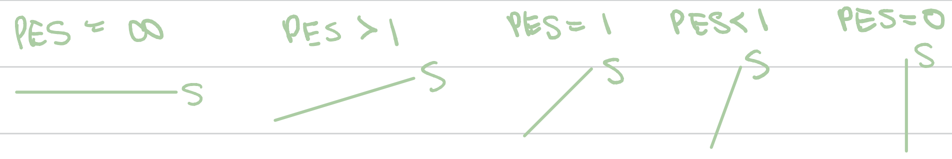




SUPPLY

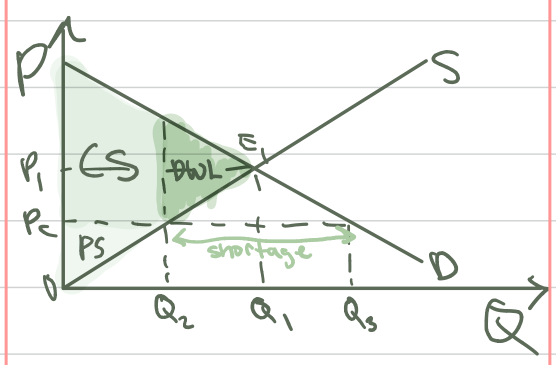
Supply Elasticity

$$PES = \frac{\frac{Q_2^S - Q_1^S}{Q_1^S}}{\frac{P_2 - P_1}{P_1}}$$

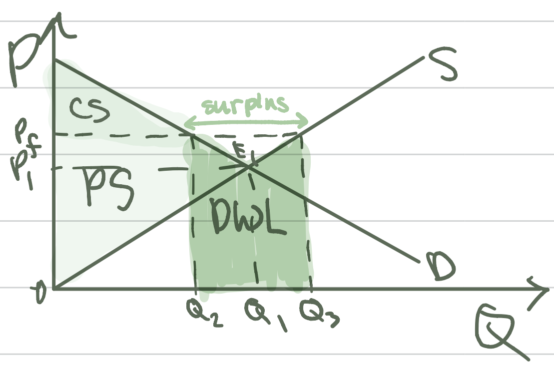


Role of the Government

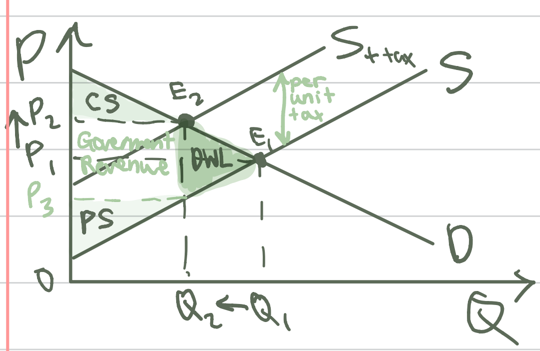
Price Ceiling



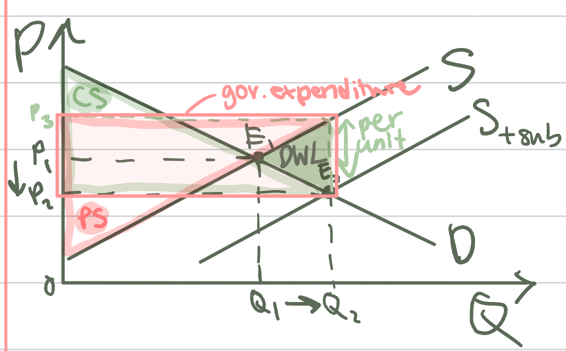
Price Floor



Indirect Taxes



Subsidies



social surplus = consumer + producer

Externalities

external costs or benefits to a third party, where a good/service is produced/consumed

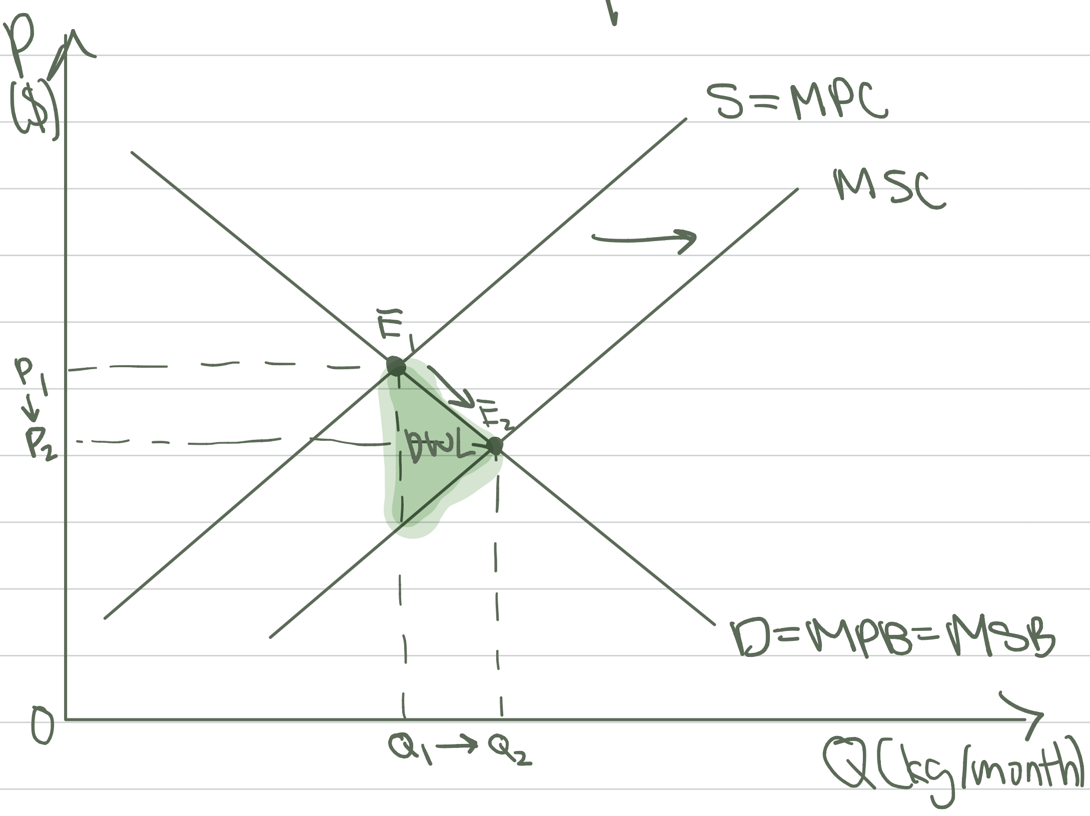
Marginal Private Benefit (MPB): the additional value gained by households or firms when consuming/producing an extra unit of a good/service.

Marginal Private Cost (MPC): the additional expense incurred by households or firms when consuming/producing an extra unit of a good/service.

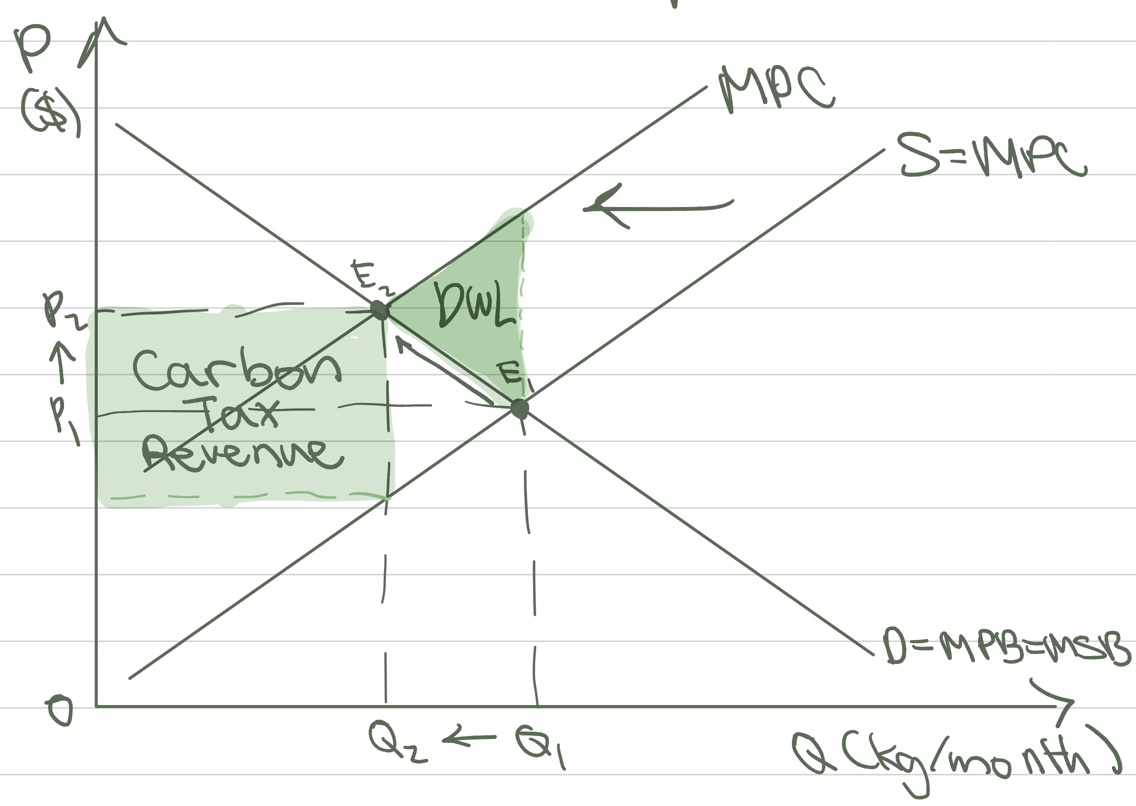
Marginal Social Benefit (MSB): the extra benefit/utility to society of consuming an additional unit of output (both private and external).

Marginal Social Benefit (MSB): the extra cost to society of consuming an additional unit of output (both private and external).

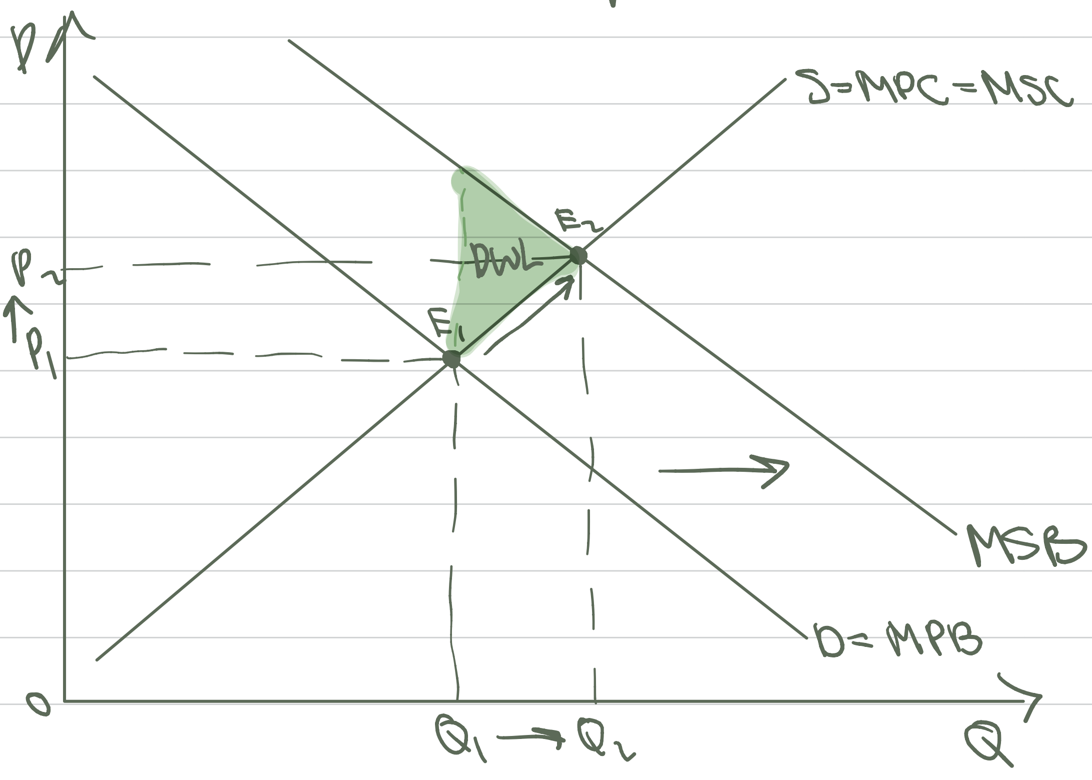
Positive Externality of Production



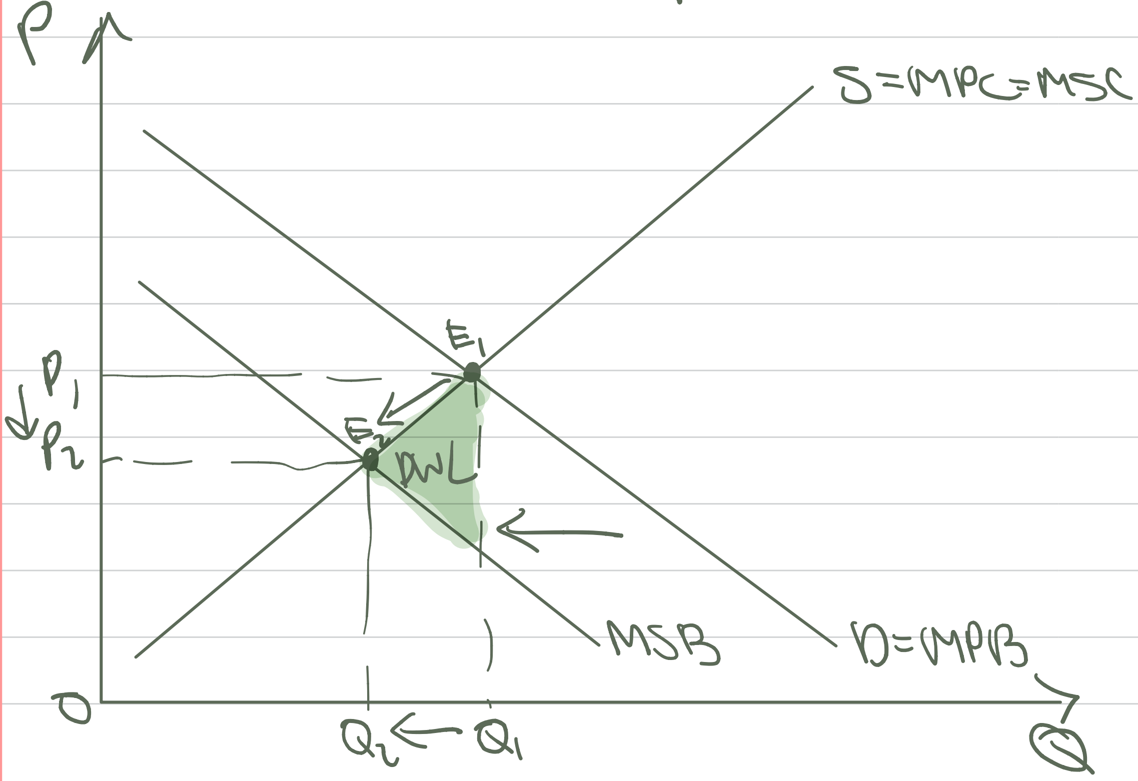
Negative Externality of Production



Positive Externality of Consumption



Negative Externality of Consumption



Market Power

1. Profit = TR − TC ← Profit = Revenue − Cost

2. $MC = \frac{\Delta TC}{\Delta Q}$

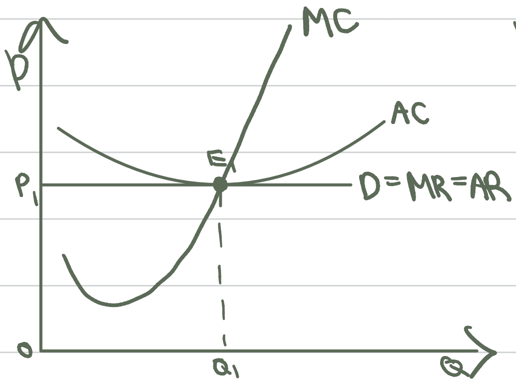
3. $MR = \frac{\Delta TC}{\Delta Q}$

4. $AC = \frac{TC}{Q}$

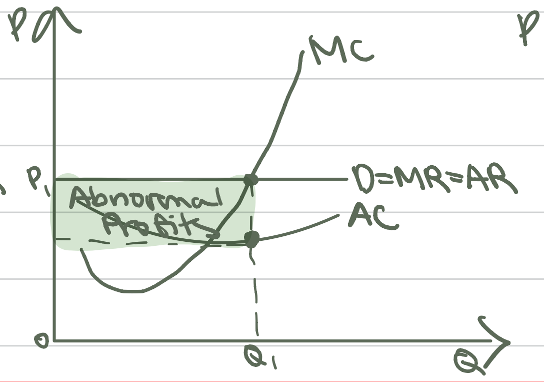
5. $AR = \frac{TR}{Q}$

PERFECT COMPETITION

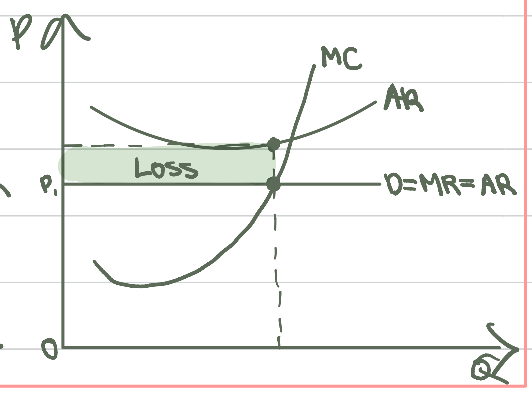
Normal Profit



Abnormal Profit

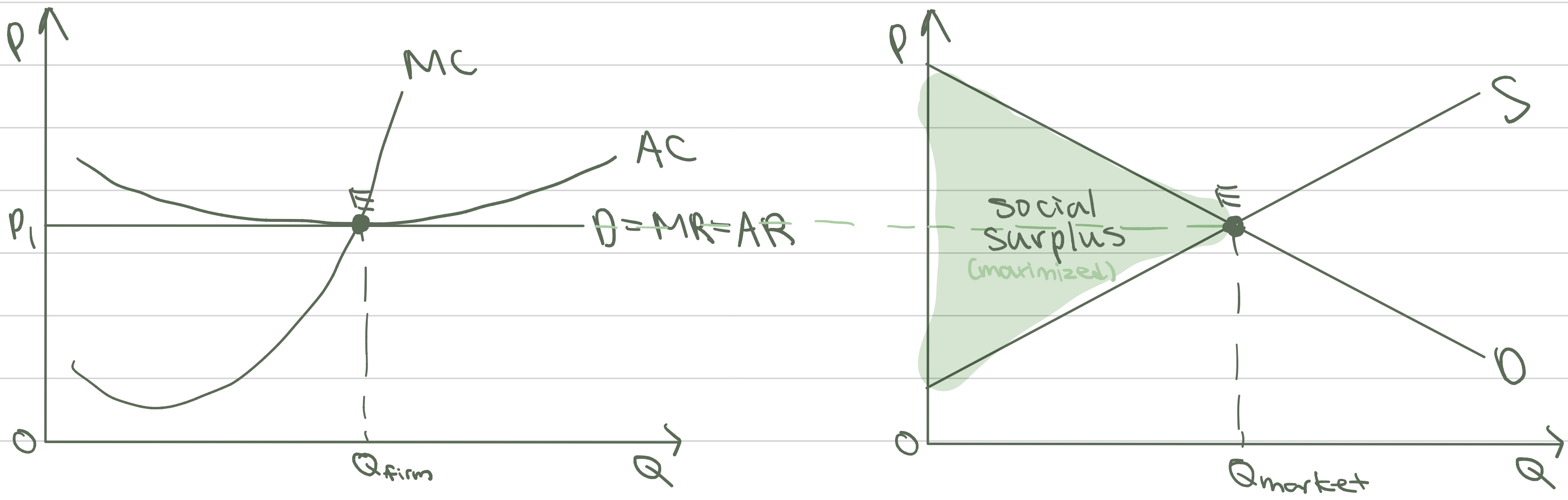


Loss



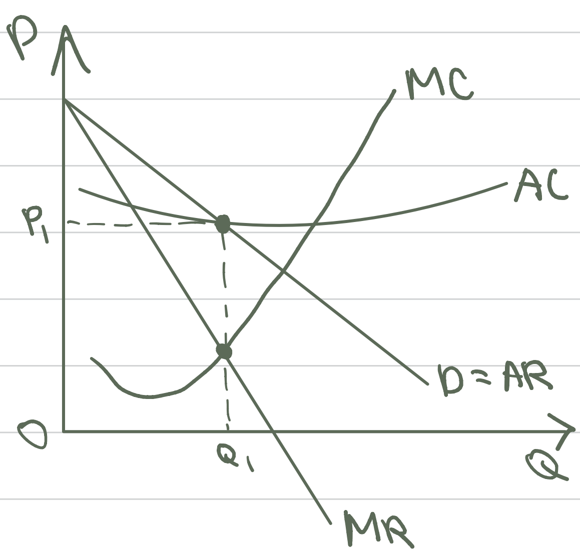
Allocative efficiency acheived in a perfect competition

→ AR = MC

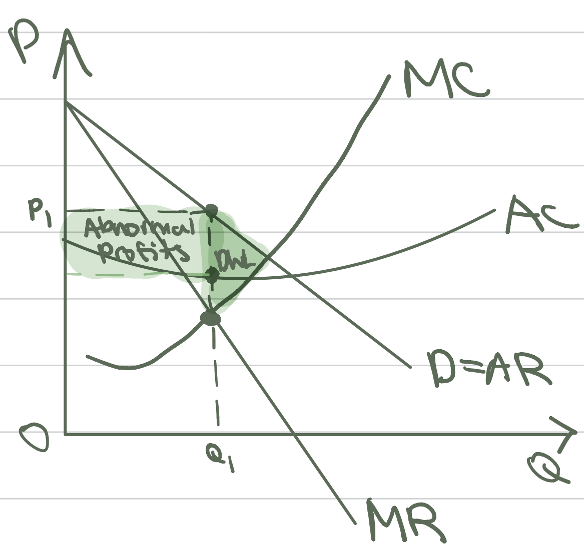


MONOPOLY

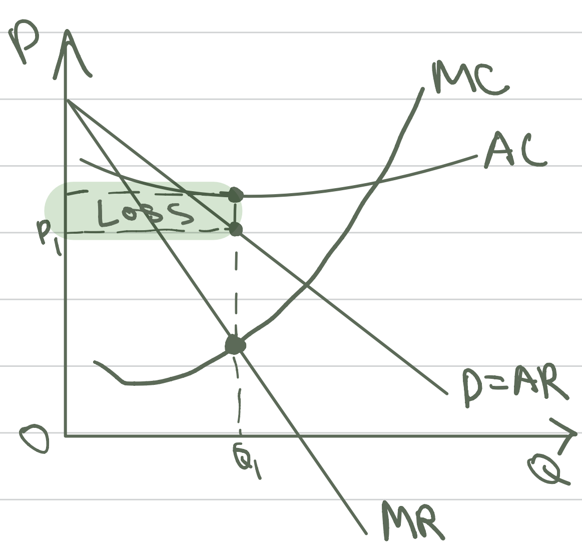
normal



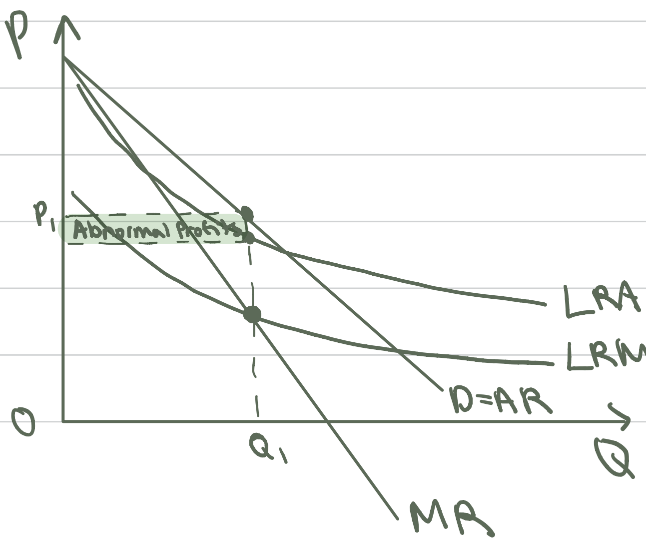
abnormal



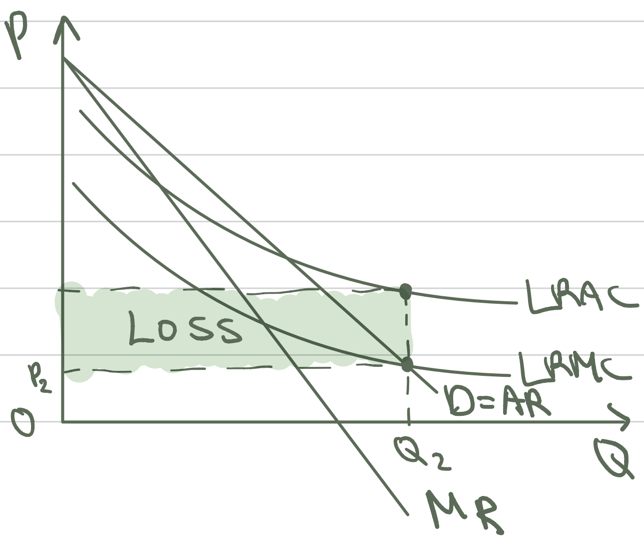
losses



Profit maximizing (natural monopoly)



Best for society (natural monopoly)



Collusive oligopoly acting as a monopoly