

Notes

4 principles of Economic Decision Making

[Fill these in later]

1. Marginal Principle:
2. Cost-Benefit Principle:
3. Opportunity Cost:
4. Interdependence Principle:

Demand Shifters

[Double check these]

1. Income
2. Substitution Effect: Price of related goods
3. Tastes or Preferences
4. Expectations
5. Market Effects: Type and Number of buyers

Supply Shifters

[Double check these]

1. Input Prices
2. Technology
3. Expectations
4. Number of Sellers
5. Something Else

Elasticity

Elasticity of demand: change in quantity demanded / change in price $\frac{\frac{Q_2 - Q_1}{(Q_2 + Q_1) / 2}}{\frac{P_2 - P_1}{(P_2 + P_1) / 2}}$

Cross Price Elasticity: change in quantity demanded of good 1 / change in price of good 2

Elasticity of supply: change in quantity supplied / change in price

Income Elasticity of Demand: change in quantity demanded / change in income

Equilibrium

Equilibrium: where supply and demand intersect
Surplus: when quantity supplied is greater than quantity demanded
Shortage: when quantity demanded is greater than quantity supplied