1. Macroeconomics
   1. Review
      1. Invisible Hand of Self Interest
         1. Adam Smith
         2. Under the assumption where no one has any advantage you get maximum efficiency
         3. If everyone purses their own best interest the best interest of all (society) will be achieved
         4. Market outcome is the most efficient outcome
         5. Produces most possible output at the lowest possible cost
      2. Law of Demand
         1. There is a negative (inverse) relationship between price and quantity purchased
         2. Why does this true?
            1. If someone raises price you should take it personally
            2. Income effect

As price changes our purchasing power changes

If the price of a good rises, you are now made poor by having less purchasing power

Cannot afford to buy as much so purchasing power goes down and we buy less

* + - * 1. Substitution effect

If price of one good goes up all other goods become relatively cheaper so we buy them instead and vice versa

* + - 1. What causes demand to shift?
         1. Income

Increase in income cause higher purchasing power

Decrease in income causes lower purchasing power

* + - * 1. Tastes and preferences
        2. Prices of related goods

Substitutes

You are indifferent between them

As substitutes price goes up demand goes up for other good

Examples

Salmon or Trout

Apples or Pears

Compliments

Goods that must be consumed together

As price of the compliment rises then it decreases demand for the other good

Examples

Peanut butter and jelly

Hotdogs and hotdog buns

* + - * 1. Expectations

What do we think is going to happen in the future

* + - 1. Demand
         1. Increases in demand shifts right
         2. Decrease in demand shifts left
         3. NEW LINES ^
         4. Change in price causes a movement along the demand line
    1. Law of Supply
       1. There is a positive relationship between price and quantity produced
       2. Change in price is a movement along the line
       3. Increase in supply => shift right
       4. Decrease in supply => shift left
       5. What causes supply to shift?
          1. Input prices (cost of production)
          2. Technology
          3. Taxes and subsidies

Sales tax

Sin tax (Alcohol and Tobacco)

* + - * 1. Supply shock

Any sudden and unexpected change that impacts supply

Example

Natural Disasters

Great weather for oat farmers

* + 1. Equilibrium
       1. Everything is balanced
       2. No one wants to change their behavior
       3. Market Equilibrium
          1. Supply = demand
          2. Quantity supplied = quantity demanded
       4. Examples
          1. Market for Bottled Water

Increase in Income, Increase in EMPLOYMENT

Increase in demand

Increase in price

Increase in quantity

New government standard for bottled water

Decrease in supply

Decrease in quantity

Increase in price

People have more picnics

Increase in price

Increase in quantity

Go Green or other Nalgene bottle

Decrease in demand

* + 1. Price controls
       1. Price Floor
          1. Minimum
          2. Example

Minimum Wage

* + - * 1. Above equilibrium price

Increase in price (wage)

Decrease in quantity

Results in surplus, which in this case means unemployment

* + - 1. Price Ceiling
         1. Maximum
         2. Example

Rent control in NYC

* + - * 1. Below equilibrium price

Decrease in price

Decrease in quantity suppliedc