I. Key Economic Concepts

Fundamentals of Economics

- **Applied Economics:** The practice of taking economic theories and principles and applying them to real-world situations to predict outcomes or solve problems.
- **Scarcity:** The fundamental economic problem where human wants are unlimited, but the resources available to satisfy those wants are finite/limited.
- **Positive vs. Normative Statements:**
    - **Positive:** Objective statements that can be tested or proven (facts).
    - **Normative:** Subjective statements based on value judgments or opinions ("what ought to be").

Market Dynamics (Demand and Supply)

- **Law of Demand:** States there is an **inverse relationship** between price and quantity demanded (as price goes up, demand goes down).
- **Law of Supply:** States there is a **direct relationship** between price and quantity supplied (as price goes up, supply goes up).
- **Market Equilibrium:** The point where the quantity demanded equals the quantity supplied (Qd = Qs).
- **Shortage vs. Surplus:**
    - **Shortage:** Occurs when the market price is **below** the equilibrium price (Qd > Qs).
    - **Surplus:** Occurs when the market price is **above** the equilibrium price (Qs > Qd).

Elasticity and Price Controls

- **Price Inelasticity:** When the quantity demanded does not change significantly even if the price changes. This usually applies to necessities like life-saving medicine.
- **Price Floor:** A government-mandated minimum price (e.g., Minimum Wage). If set above equilibrium, it can cause a surplus (unemployment).
- **Price Elasticity:** The measure of how responsive consumers are to price changes. For example, students with low allowances likely have **elastic demand** for luxury coffee; if prices rise, they will stop buying it.

II. Problem-Solving Toolkit

To solve questions 39–50, you need to use the data provided in the table.

1. Finding the Equations

The general form for a linear equation is Q = mP + b, where m is the slope and b is the intercept.

- **Slope (m):** Q2-Q1 /P2-P1
- **Quantity Demanded (Qd):** Based on the table, for every ₱50 increase in price, demand drops by 50 units.
- **Quantity Supplied (Qs):** Based on the table, for every ₱50 increase in price, supply increases by 50 units.

2. Price Elasticity Formula

Use the Midpoint Formula (Arc Elasticity) for the most accurate results:

Ed = Q2-Q1/Q1 /P2-P1 / P1

Note: Your exam provides specific prices (P1 = 345, P2 = 1,075) to use for these calculations.
