Principles of Microeconomics

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Chapter 1

Supply and Demand

1.1 Introduction

- An economy is a system of producing, distributing, and consuming goods and services.
- Economics is the study of economies.
- Microeconomics is the study of how individuals, households, and firms make decisions and how they interact in specific markets.
- Macroeconomics is the study of society's overall system of production, distribution, and consumption.

1.2 Markets and Competition

- A market is a group of buyers and sellers of a particular good or service.
- A competitive market is a market with so many buyers and sellers that each has a negligible impact on the market price.
- A market is perfectly competitive if:
    1. The goods/services offered for sale are all exactly the same.
    2. The buyers and sellers are so numerous that no single buyer/seller has any influence on the market price.
- Buyers and sellers in perfectly competitive markets are called price takers because they must accept the market price.

1.3 Demand

1.3.1 The Demand Curve

- The quantity demanded of a good is the amount that buyers are willing and able to purchase.
  - There are many determinants of quantity demanded, but the most important is the good's price.
- Law of Demand: Holding everything else constant, when the price of a good rises, the quantity demanded falls. When the price falls, the quantity demanded rises.
- A demand schedule is a table that shows the relationship between the price of a good and the quantity demanded (holding every other determinant of quantity demanded constant).
- The demand curve is the line relating price and quantity demanded.
  - By convention, price is plotted on the y-axis and quantity demanded is plotted on the x-axis.

Ex. Zade's Demand Schedule and Demand Curve

Price of Ice-Cream Cone	Quantity of Cones Demanded
\$ 0	12 cones
1	10
2	8
3	6
4	4
5	2
6	0