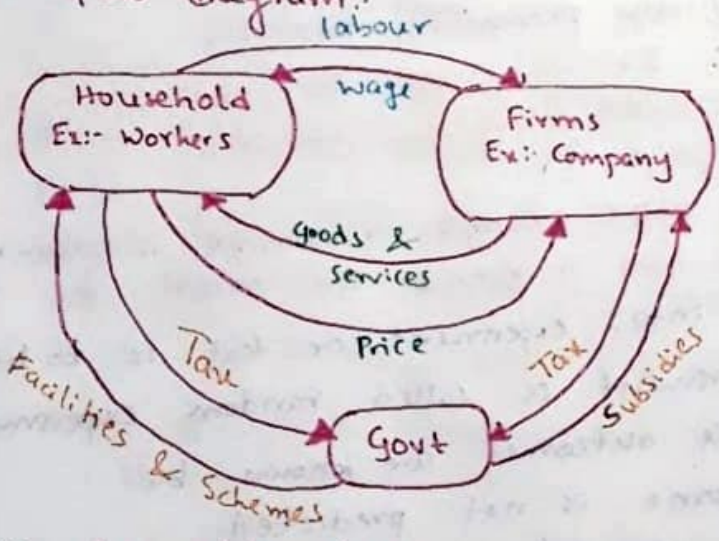
Micro-economics

* Prof name : Radeef sir
* Evaluation plan : Tiera exam - 100%
* References : Principles of economics by Mankiew

→ Price, demand and supply are related.
→ Recently price of tomato got inc as supply became less due to heavy rainful and demand is more.
→ Also, price depends on other factors such as tax, individual income, etc;
→ Scarcity => limited resources & unlimited needs.
→ micro-economics is derived from greek word eikonomio. & it deals with household management.
→ Circular flow diagram:-



→ We can also add foriegn companies and financial institutions & markets into the diagram.
→ Foriegn companies pays FDI, FPI to firms. It provides employement to household, it also pays some tax to gov. Also, households deposit/invest money in financial institutions & markets and get profits in return.
→ FDI => Foreign Direct investment
Investing to set up production plants.
→ FPI => Foriegn Portfolio investment
Foreign companies buy shares and get profited. In this, they dont invest directly.

Micro economics (2nd class)

Why to study ? => To understand the world.

How to take a good economic decision. <= => To be smart participant in the economy.

Ex:- Deciding whether to join IIT & spend (or) join work & earn. If u join MNC, u can take wise decision on how much money to consume & save. Starting own business / start up.

MNC -> Multi National Companies

=> Economic policy

To understant govt policies. How they impact economy.

2 ways Economists think in are :-

① Positive "What is" analaying

② Normative "What should be" Improvement

=> Positive means analyzing what's going in present and normative means thinking to make that situation better. They are not same.

10 principles of economics :-

① People face trade off :

Ex:- i) Students face with time management in courses IC / LA

ii) Consumers what they want to buy products Orange / Apple

iii) Firms face this to produce types of goods iPhone / Macbook

iv) Government face trade off in (efficiency) vs (equality -> equal distribution of welfare)

getting max benefit

Ex:- Distributing money to poor

There are some policies introduced by govt which ensure equality but no defi

benefit will be there for govt.

" If u have to get something, u have to compromise with something " or give up "

② The cost of something is what you give up to get it. This cost is opportunity cost.

③ Rational people think at the margin

To buy buy 1 unit grape u have to not buy 2 units of orange for same money. ⇒

For Ex

4 units orange or 2 units grape

O.C of 1 unit grape = 2 units orange.

They do their best to attain their objectives

Consumers

max satisfaction / utility

Firms

max profit

Margins ⇒

Marginal benefit = ΔTotal ⇒ Marginal income − marginal cost

There are 3 terms :- ① Marginal cost
② Marginal income
③ Marginal benefit (or) profit

Let us understand these terms using an example Lasya is the owner of a movie theatre. When, RRR movie is released 98 out of 100 seats in theatre got filled. Each seat cost ₹200/-. When the show was about to begin in 15 minutes, Black rose (Kala Gulab) & Drug bird who were close friends went to theatre to buy a ticket. But they have only ₹300/- with them. Now if Lasya accepts them to watch movie then she will get an income of ₹300 or else seats will be unfilled. There will be no loss for Lasya if seats are sold for lower price. Hence marginal cost is 0. By selling tickets for them, Lasya got income of ₹300/- ⇒ Marginal income 300

Marginal benefit = 300 − 0
= ₹300/-

Note:-
Drug bird is Swaroop Mishra

Lec-3 :- Micro economics

④ People respond to incentives which make person to act.
↳ doing something to make others to do what we want.

Ex:- Offers attract people.
Any many examples are there such as government schemes of giving subsidies

⑤ Trade can make everyone betteroff.
Trades happen when there is absolute advantage.
It can as also happen with comparative adv.

⑥ Markets are usually a good way to organise economic activities.
The economy was previously managed by govt. Now "market economy" is there. The decision is in hands of firms & households now.
↳ based on opportunity cost

⑦. Government can sometimes improve

⑧ A countries standard of living depends on its ability to produce goods & sour services
Productivity plays crucial role in development of a standard.

⑨ There will be price rise when govt prints too much money (1$ = 669 billion zimbabwe money)
There will be inflation

⑩ Society faces short term trade off b/w inflation & unemployement.
Inflation is inversely proportional to unemployement.

For 5th principle :- If cost to make rice & cars are as follows:-

	Rice	Car.
India	10	20
China	20	10

India can import cars from China & China can import rice

* In this ex, 2 countries hav absolute advantage.
* Though there is no absolute adv, If we have diff in opportunity costs, still trade happens (comparative advantage)

Price

	R	C
I	10	5
C	8	2

opp cost =>

	R	C
I	(2)	0.5
C	4	(0.25)

=> India should focus on R & China on C and then trade.

(7) Government can sometime improve market outcome
They keep some rules & regulation to keep the economy proper.
property rights

Market failure → Ex:- ① externality (impact of one persons action on other) which includes pollution
② market power
gov interfers to organise prices to ensure welfare.

Govt operates

Demand & Supply :- (Lecture - 4) - MICRO ECONOMICS

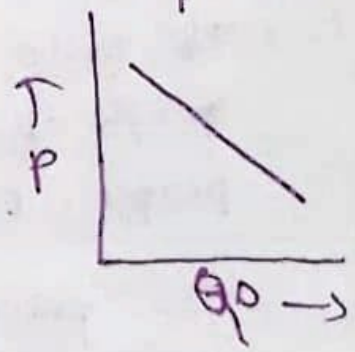
Demand → depends on consumers & households

Supply → depends on sellers and producers

Demand :- It indicates the amount of goods that buyers are willing and able to buy.

* Sometimes, even if we are willing, we couldn't buy then, demand will be less.
* Law of demand: If everything remain same, at that case if price ↑ then, Quantity demanded (Qd) ↓ and vice verse ⇒ P ↓ ⇒ Qd ↑
* The representation of P & QD in a table is called Demand schedule. The graphical representation is as follows.

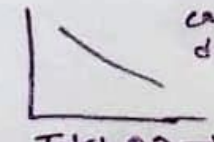
P	QD



* To calc whole market demand then we add Qd by all persons.

P	Qd ①	Qd ②				Total
						①+② ①+... ....

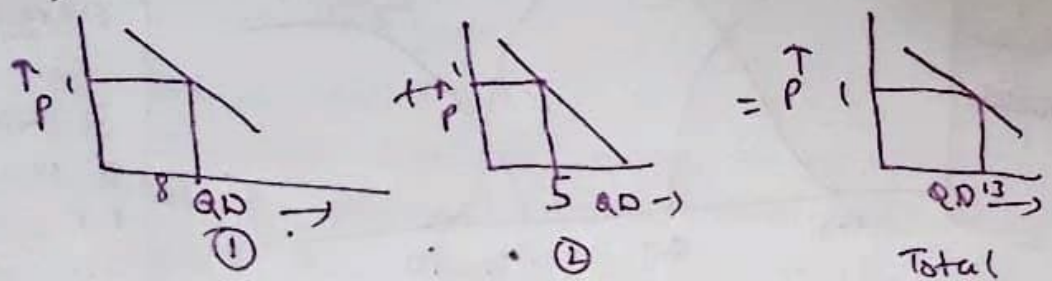
Take graph is drawn as



can be drawn.

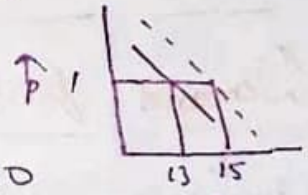
The curve we get is demand curve

For price ₹1 for 1 icecream then, for 2 persons,



① ② Total market demand.

* Income also plays a role in demand. Income & Qd are positively related. So, if income inc then, graph btw P & Qd shifts towards right when the price is unchanged coz people purchase more. Similarly if income ↓ then graph dec shifts towards left. Income & Qd can also be negatively related. Ex:- If income inc many people buy cars instead of bicycles. So, positively related goods are normal goods and other are inferior goods.



* Another influencing factor is price of related goods Ex:- Tea & Coffee, Pen & pencil.
If P ↑ for tea then Qd to coffee ↑ and vice versa. Such goods are called substitutes.

* There are also another types of goods known as compliments. Ex:- Car & petrol, computer & software, mobile & sim. These are needed to be purchased together. So, if price of one inc then Qd of that dec then demand for that complimentary products dec

→ If price of relative product or substitute ↑ then, graph of the original product shifts to right as people choose less price items hence its Qd ↑.

→ If price of compliments ↑ then, graph of orginal product shifts toward left. Coz if price of compliment ↑ Qd ↓ => Qd ↓ for the compliment also.

* Taste, preferences, expectation, No. of buyers also influence demand.

Taste :- ☕ Tea & coffee

Preferences :- Ice-cream in summer, Umbrella in rainy

Expectation :- (Depends on quality of product and satisfaction of customer). (Gold buying) Ex :- If price may dec we won't buy now.

No. of buyers depends on the above factors.

These are the examples where demand is influenced by these factors.

recently sanitizers buyers ↑

Lecture - 5

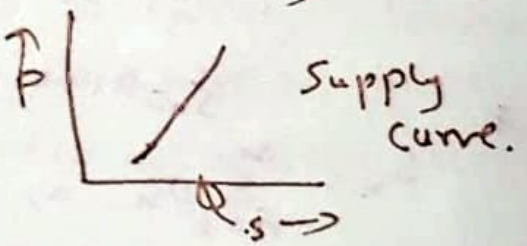
Supply:-

* It's the amounts of goods that sellers are willing and able to buy.

* Law of supply:- Price ↑ sellers inc the supply to gain more profit. (Qs = Quantity supplied)

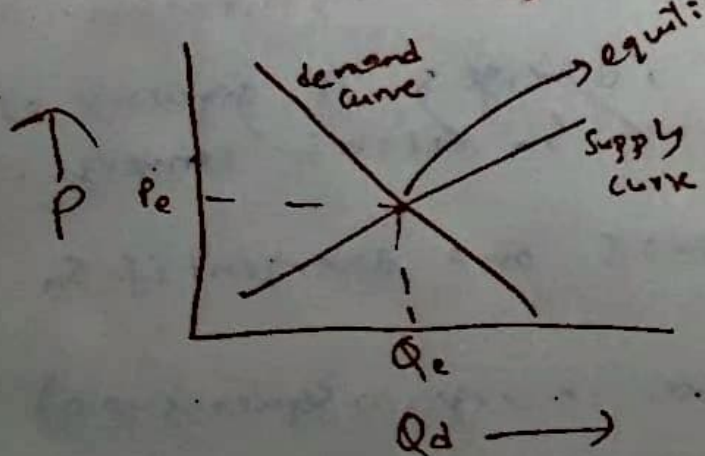
P	Qs

Supply table.

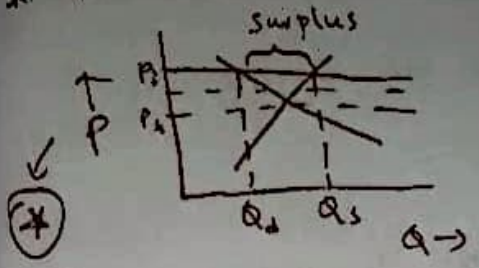


* Supply depends on input profit. It is the price of making a good.
* Technology inc efficiency and productivity of supply.
* Expectation can also influence supply. If a price of a good is expected to rise then company stores that good for future.
* It also depends on no. of sellers.

Equilibrium in market:-



* If market is not in eq then, (price is above eq).



* When that price dec, not all can supply coz for some people cost of production is greater than equilibrium price which leads to loss.

* In the similar way, when the price is more, even consumer income is meeting the price, buying depends on mindset of consumer and valuation.

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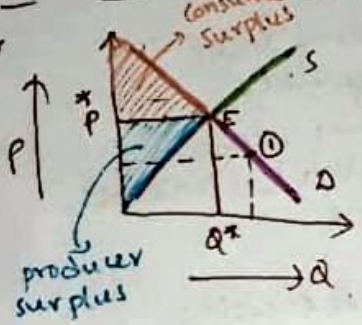

Person ① will not buy coz he value that good less than the equilibrium price. So, for him eq. price is more to afford. People on pink line won't buy the good. People in the region of orange line buys the good. similarly.

Consumer surplus
= Price consumer is willing to pay − Eq price.

Firms on green colour line will not produce becoz their cost of production will be more than the selling price.

Firms on blue line will produce goods as they get profit and that area shaded by blue colour indicates producer surplus

Producer surplus = price − willingness to accept.

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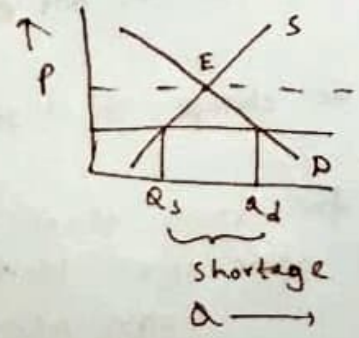
* If market is not in eq then, (price is blw eq)



It is brought back to equilibrium coz people pay more money as supply is less. demand is more.

In ⊛, it is brought back to eq as companies reduce the price as supply is more.

* We can also shift the equilibrium by shifting the demand and supply curves by changing the factors affecting them.

Elasticity:-

It is the responsiveness of Q_d / Q_s for change in one of it's determinants.

* Price elasticity of demand

① Elastic demand
There will be big change in Q_d for change in price

Ex:- Cars, gold, etc.

↓

Luxury

① Inelastic demand.
There will be small change in Q_d for change in price

Ex:- Food items such as sugar, rice, other thing such as petrol, internet, Medicine

↓

Necessity

* Things that influence elasticity of demand

=> Neccesity or Luxury
↓ ↓
inelastic elastic

=> Availability of close substitute or not avcilable
↓ ↓
elastic inelastic
Ex:- Tea & coffee Ex:- Medicine

=> Definition of Market

Narrow — ice-cream — elastic
Broad — Food — inelastic

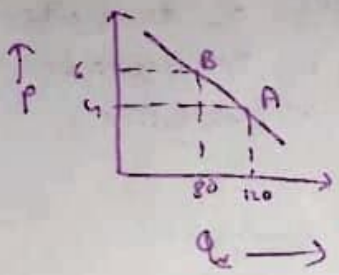
=> If market is narrow then price change effects demand but broad markets are not affected

=> Time horizon :-
As time passes there can be change in elasticity.
Ex:- petrol
If it's price is inc, for some years it will be inelastic but after some years there may be change in demand as many men may shift to electric vehicles. So, as time passes it becomes elastic.

Lec-6 (Micro economics)

Price Percentage elasticity of demand $= \frac{\%\text{ change in } Q_d}{\%\ \Delta \text{ in } P} = \frac{\frac{\Delta Q_d}{Q_d}}{\frac{\Delta P}{P}} = \frac{\Delta Q_d \cdot P}{\Delta P \times Q_d}$

(No need to consider signs)



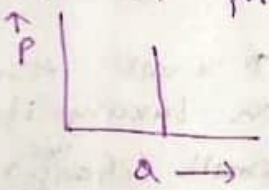
When moving from A to B & B to A we get different answers. Hence it is not that suitable to calculate elasticity. Hence we use midpoint method.

Ped (Price elasticity of demand) $= \frac{\Delta Q_d}{\Delta P} \times \frac{\left(\frac{P_1+P_2}{2}\right)}{\left(\frac{Q_{d_1}+Q_{d_2}}{2}\right)}$

* If ped ≥ 1 => elastic → slope of demand curve is ≥ 1
* If ped < 1 => inelastic → slope
* If ped $= 1$ => unit elastic
* If ped $= 0$ => perfectly inelastic

[ped $= \infty$ => perfectly elastic (mostly happen when there is perfect substitute)]

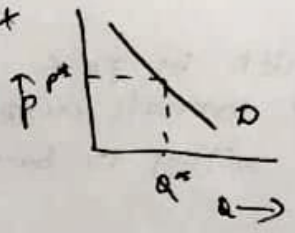
In this case demand will not be effected by change in price - the graph look like



There are only few examples for perfectly inelastic goods.
Ex:- Oxygen, Life saving medicines

Elasticity => determined in terms of %
slope => $\frac{\Delta P}{\Delta Q}$

* If ped $= \infty$ => perfectly elastic



=> Total revenue = P × Q

For elastic as P↑ Q↓ rapidly hence R↓

For unit elastic as P↑ Q↓ equally. so, R is constant

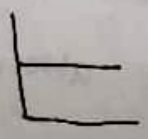
For inelastic as P↑ Q↓ slightly hence R↑

Graphs:- P vs Qd (P on Y-axis, Q on X-axis)

Elastic

Inelastic

Perfectly elastic



Perfectly inelastic

Unit elastic

* Gross price elasticity of demand

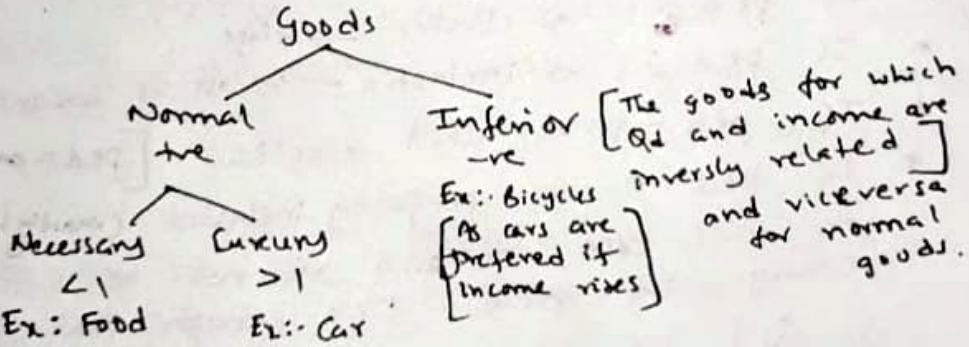
$$= \frac{\%\ \text{Change in } Q_d \text{ of good 1}}{\%\ \text{change in price of good 2}}$$

When the two goods are substitutes of each other then the sign is positive and if two goods are complimentary then sign will be negative

* Income elasticity of demand

$$= \frac{\%\ \Delta \text{ in } Q_d}{\%\ \Delta \text{ in income}}$$

Sign of this is ~~negative~~ positive in case of normal goods and negative for inferior goods



Price Elasticity of Supply :-

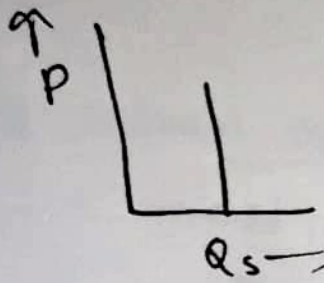
Inelastic :- They are necessities. A shift in price doesn't effect consumer demand or overall supply of good coz people will be always willing to buy.

Ex:- Housing

Elastic :- There will be impact on supply on changing price of good.

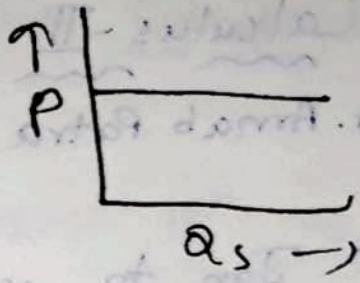
Ex:- Books, pen

these may have alternatives.



e=0 Pes=0

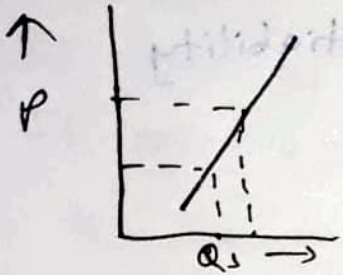
perfectly inelastic



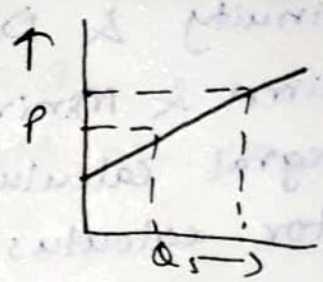
e=∞ Pes = ∞

perfectly elastic:
→ mostly happens when item is perfect substitute

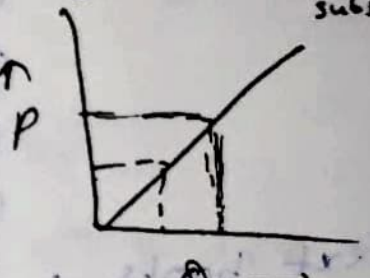
Pes ⇒ price elasticity of supply.



inelastic



elastic



unit elastic

* If ped < 0 (increase of elastic products.), then only we should increase the price of a product, so that total revenue will not be decreased.