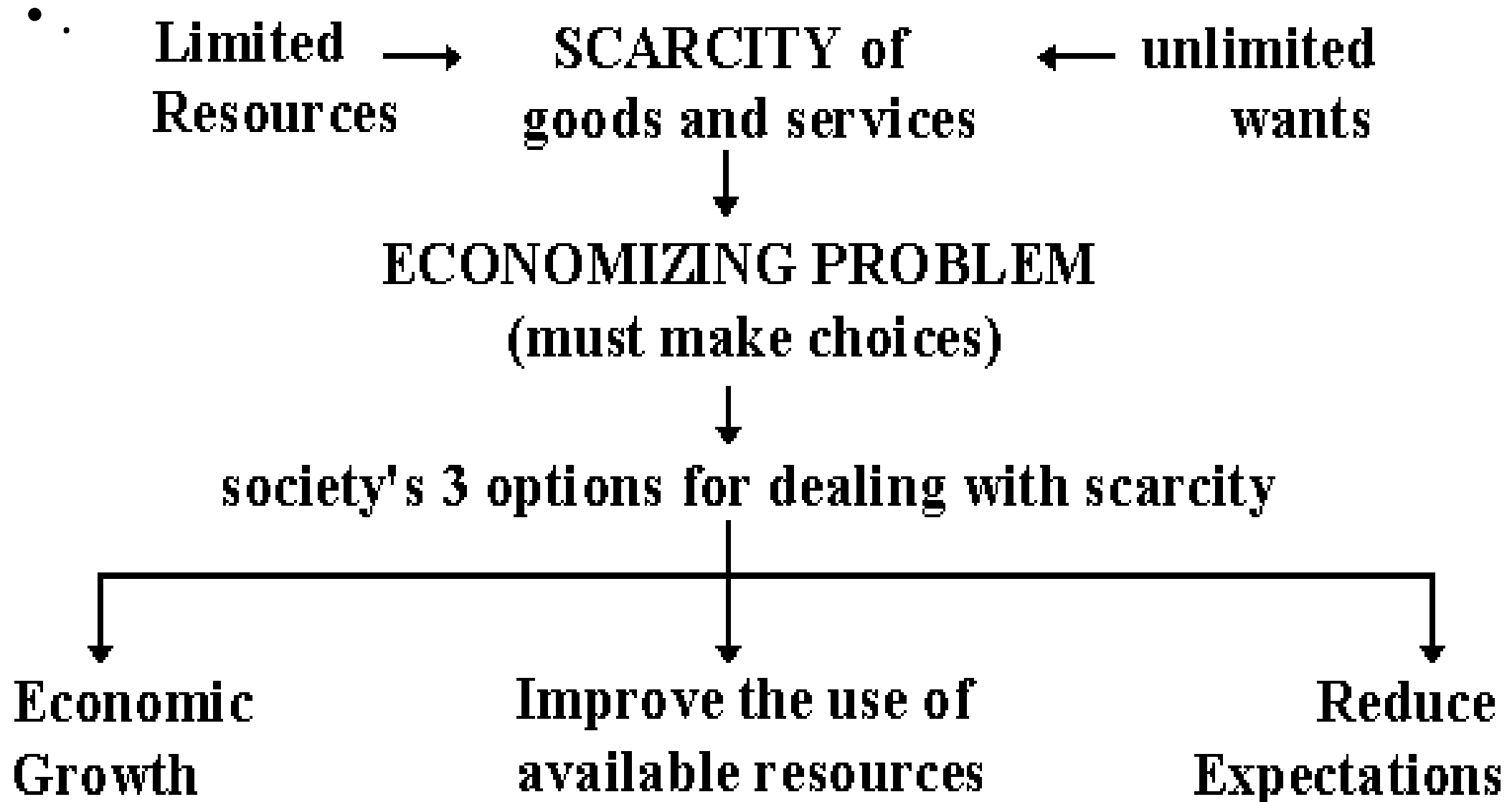


Introduction to Economics

Economics

- It's the study of scarcity, the study of how people use resources and respond to incentives, or the study of decision-making.
- It often involves topics like wealth and finance, but it's not all about money.
- Economics is a broad discipline that helps us understand **historical trends**, interpret **today's headlines**, and **make predictions** about the coming years (American Economic Association).

Basic Economic Problem



- Traditional view of Economics:
 - Consumption
 - Production
 - Exchange
 - Distribution

Cont...

- Modern view of Economics:

- Price theory

- Income theory

Microeconomics (related to
determination of price = $f(D, S)$)

- Growth theory

- Employment theory

Macroeconomics
(Ecosystem as a whole)

Market Mechanism

Fundamental laws of market:

Law of Demand

Law of Supply

Demand

Demand

The willingness and ability of buyers to purchase a good or service.

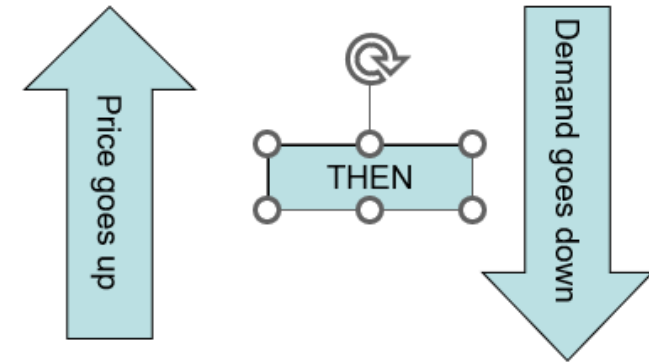
Demand for a particular product or service represents how much people are willing to purchase at various prices.

Thus, demand is a relationship between price and quantity, with all other factors remaining constant.

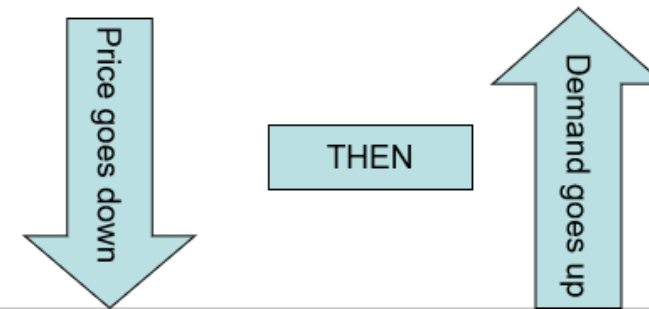
Law of demand

- Generally the relationship between price and quantity is negative. This means that the higher is the price level the lower will be the quantity demanded and, conversely, the lower the price the higher will be the quantity demanded, all other factors remaining same.
- Demand is represented graphically as a downward sloping curve with price on the vertical axis and quantity on the horizontal axis.

As **PRICE** increases, **DEMAND** decreases



As **PRICE** decreases, **DEMAND** increases



Demand Function

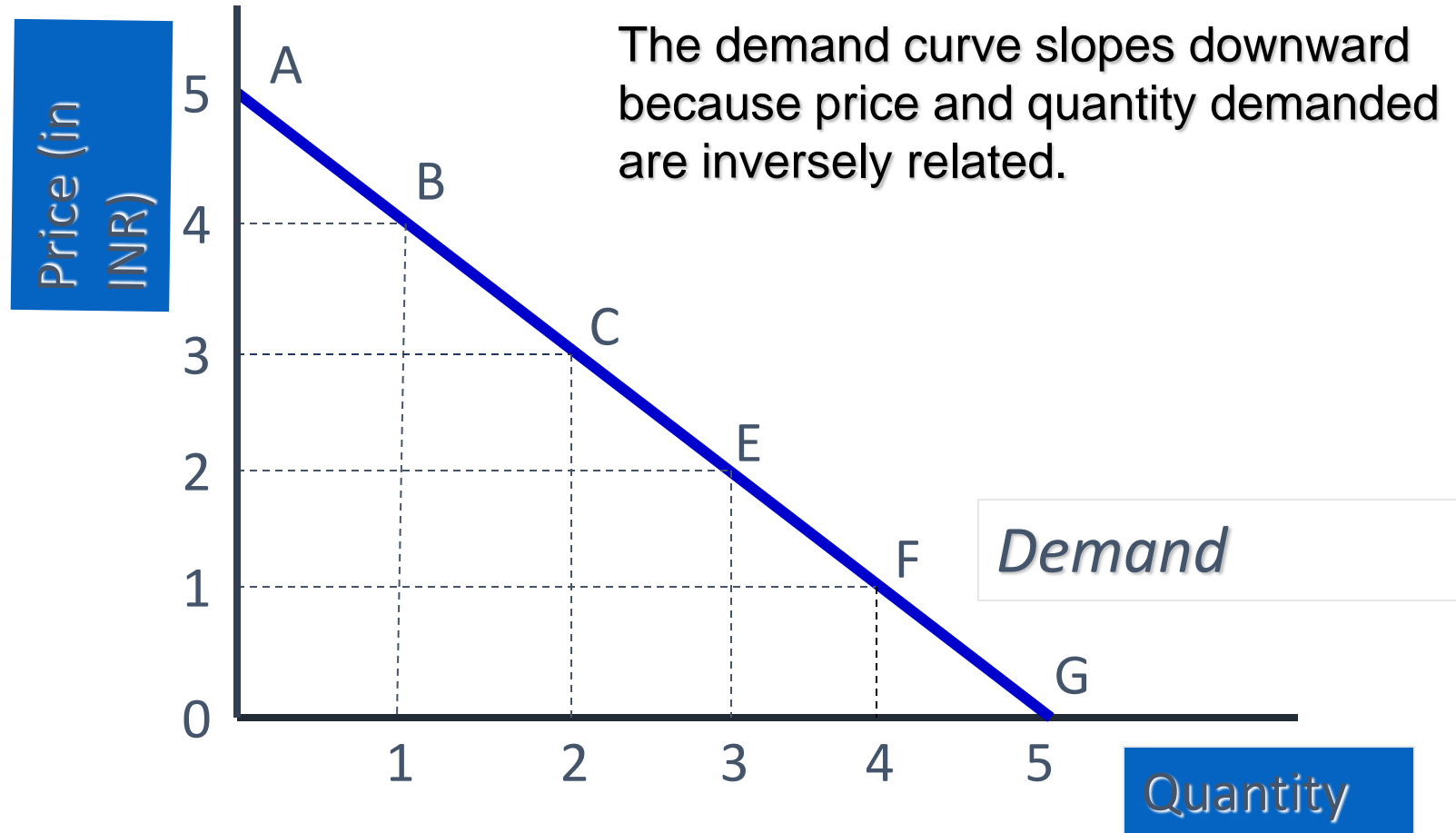
Demand function shows relation between P & Qd when all other variables are held constant

$$\underline{D_x = a - bP_x}$$

Demand Schedule

Data Point	Price (in INR)	Quantity Demanded
A	5	0
B	4	1
C	3	2
E	2	3
F	1	4
G	0	5

Demand Curve



Exceptions to law of Demand

- Luxuries
- Giffen goods/ Inferior goods
- Multiple uses of product
- Ignorance

Determinants of Demand

- Price of the Commodity
- Income of Individual
- Price of related good
- Advertisement expenditure
- Taste and Preference of individuals
- Future expected Price
- Target Population

Elasticity of Demand

- The degree to which changes in price cause changes in demand
or
- If we change the price, will demand change a lot or a little?

Elastic Demand

- If Demand for a good is very sensitive to changes in price, the demand is ELASTIC

Or

- If prices changes a little bit, demand will change a lot!

Shifting Demand versus Movements along a Demand Curve

- A change in the price of a good causes a change in the quantity demanded,
but does not shift demand

Inelastic Demand

- Demand for a good that consumers will continue to buy despite a price increase is INELASTIC

OR

- Even if price changes a lot, demand changes very little

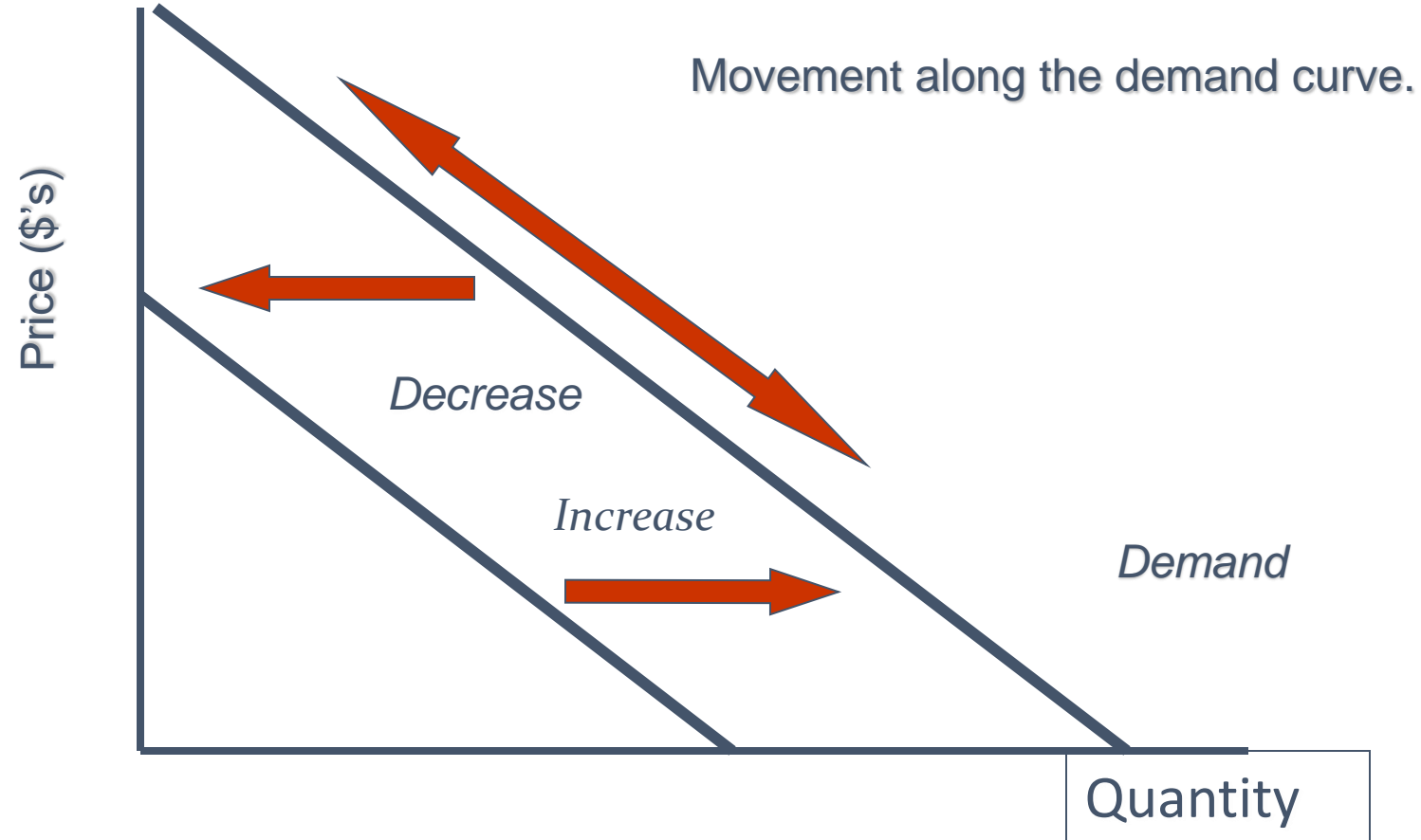
Example of Inelastic Demand

- The price of soap goes up a lot, the demand stays almost the same.

Changes in Demand vs. Changes in Quantity Demanded



Changes in Demand vs. Changes in Quantity Demanded



Factors causing Shift in Demand

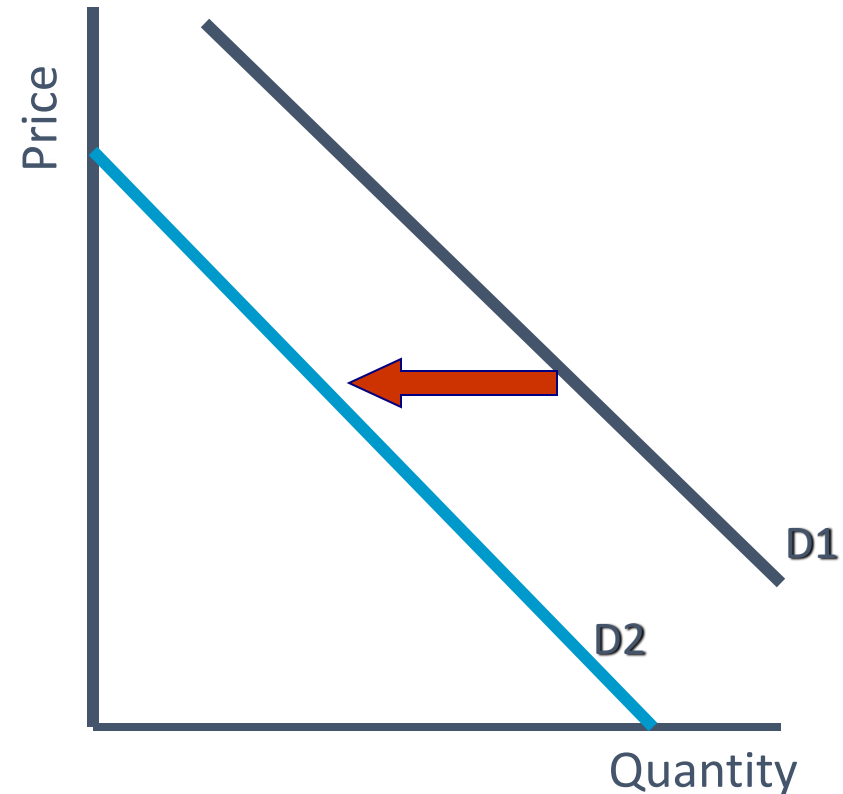
- Tastes and Preferences
- Substitutes and Complements
- Income
- Population
- Price Expectations

Changes in Demand - Decrease

Demand Shifts LEFT

When:

- ❖ *Prices of substitutes decrease*
- ❖ *Prices of complements increase*
- ❖ *Normal good-income decreases*
- ❖ *Inferior good-income increases*
- ❖ *Population decreases*
- ❖ *Tastes & preferences turn against the product*



Changes in Demand – Increase

Demand Shifts RIGHT

When:

- ❖ *Prices of substitutes increase*
- ❖ *Prices of complements decrease*
- ❖ *Normal good-income increases*
- ❖ *Inferior good-income decreases*
- ❖ *Population increases*
- ❖ *Tastes & preferences turn in favor of the product*

