

Macro. Study Guide Ch. 1-4 Study Guide

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Econ

- The study of how society chooses to use scarce resources
- The world is full of constraints

Scarcity

- More demanded than what is available

Four types of resources

1. Labor resources
2. Capital resources
 - a. Equipment
3. Land
 - a. Oil
4. Entrepreneur
CELL

Implications of scarcity

- Scarcity=choice
- Opportunity cost=what is given up

Fundamental questions of econ

- What
 - o Allocation
 - o Things to produce
- How
 - o Production
- Who
 - o Distribution

Main Key Ideas

- TANSTAAFL
 - o No free lunch
- Markets move towards equilibrium
- Gov't may improve market outcomes
 - o Stimulus
 - o QE
- One person's spending is another's income
- Much of econ remains a mystery

Scarcity and the economic problem

- Scarcity » choice » cost

Production possibility frontier

- PPF
- The line on a graph
- Line means attainable efficient
- Slope = opportunity cost

Common expenditures

- Money
 - Makes exchange possible
- Exchange
 - Voluntary exchange is mutually beneficial
- Specialization
 - Occurs to improve efficiency
 - Comparative advantage
 - Lower opportunity cost for aid person to produce

Characteristics of a competitive market

- Identical product
- Many sellers
- Many buyers
 - All buyers and sellers called price takers
 - Cant change the price on their own

Law of Demand

- How much people will buy at said price
- Price goes up quantity demanded goes down

Demand Vs. Quantity Demand

Demand

- Causes shift in whole curve
- Any constant
- Determinants

Determinants

- Income change
- Change in price of RELATED GOOD
- Changes in taste
- Changes in expectations

Quantity Demand

- Movement along the curve
- Caused by change in product price

Normal Good

- Income goes up you'll buy more of said good

Complementary goods

- Goods that go together

Change in supply

- Change in cost of production
- Prices of related goods
- **Changes in expectations**

Input/Factor Markets

- The markets in which resources used to produce other goods and services are exchanged

Functions of equilibrium price

- Information
 - High and rising means product is scarce
- Incentives
 - Rising price tells consumers to cut back
- Rationing
 - Price rations scarce goods

What happens at price ceilings?

- Bribes
- More fees
- Shady rationing

Consumer surplus on top

Producer surplus on bottom

PRICE CAUSES MOVEMENT ON CURVE

Shortage

- Demand goes up a shortage will be created at first causing prices to rise

Supply

- Increased supply will cause a surplus, thus bringing a drop in prices

When quantity demanded exceeds quantity supplied a shortage will occur thus causing prices to rise