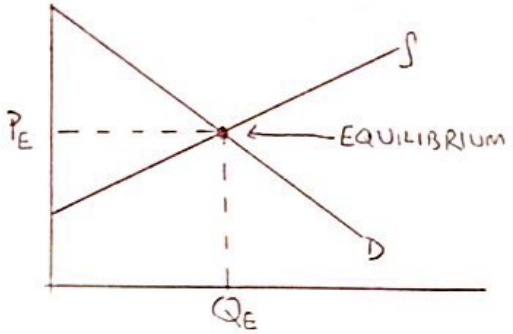
The Three Qs
1. What to Produce
2. How to Produce
3. For Whom to Produce

Microeconomics = Study of Ind. Behavior



P=MB Consumer
P=MC Firm
MC=MB IS EQUILIBRIUM & EFFICIENT
Because everything available at the price is purchased.

Demand = Relationship between P and Q_d

Q_d = how many are wanted at specific price

Demand curve has all Q_d and P combinations

Shifts = ANYTHING NOT PRICE CHANGING

Movements = ONLY PRICE CHANGES

Complement: ↑P of Good 1 = ↓Q_d of Good 2
Because ↑P causes less Demand for Good 1

Substitute: ↑P of Good 1 = ↑ Q_d of Good 2
People Demand less of 1 and more of cheaper 2
Normal Good = ↑Income then Q_d ↑

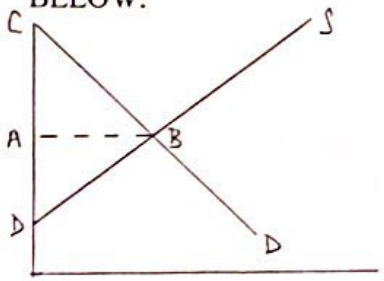
Inferior Good = ↑Income then Q_d ↓

Price Floors & Ceilings are only <u>effective</u> if they change behavior in the market

Marginal = how much more ____ if one more item is produced/consumed/purchased

Total _____ is the combined marginals

SURPLUS– ALWAYS HAS BOTH END POINTS OF THE PRICE LINE. CONSUMER ABOVE. PRODUCER BELOW.



CS= ABC PS= ABD

ELASTICITY

$E_d > 1$ is Elastic

$E_d < 1$ is Inelastic

$E_d = 1$ is unit elastic

ALL ELASTICITY FORMULAS Q_d ON TOP

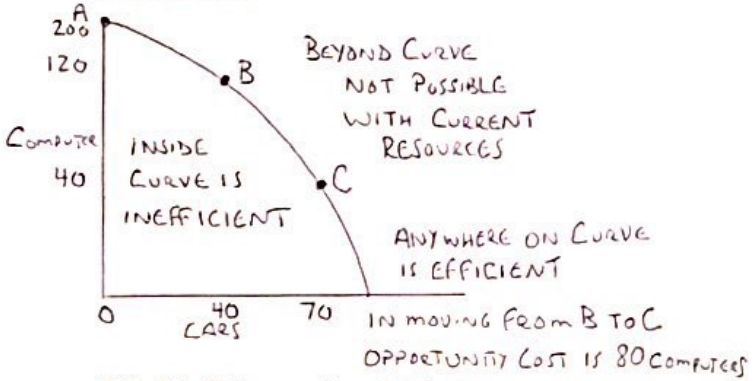
$E_d = \%\Delta Q_d / \%\Delta P$

Income E_d = $\%\Delta Q_d / \%\Delta$Income

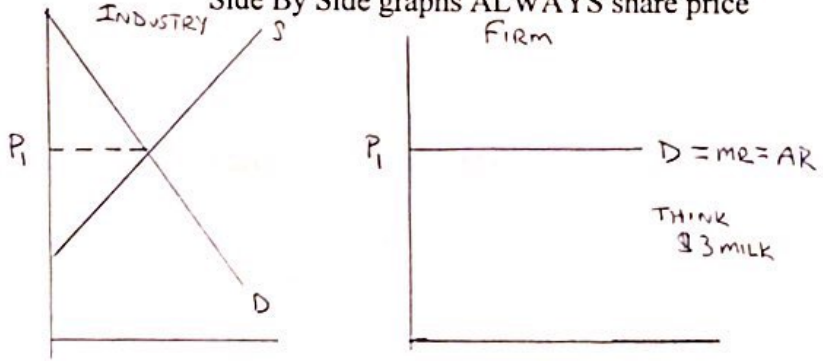
Cross Price Elasticity = $\%\Delta Q_1 / \%\Delta P_2$

Comparative Advantage is measured by what you give up. Whoever gives up less has comparative adv. Basically, lower opportunity cost

Production Possibilities Frontier or Curve
PPF or PPC



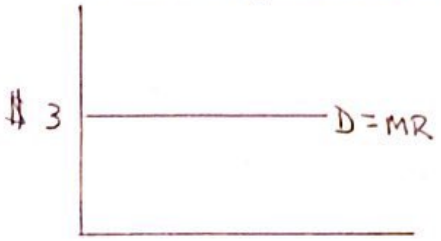
Side By Side graphs ALWAYS share price



Competitive Firms = Price Taker

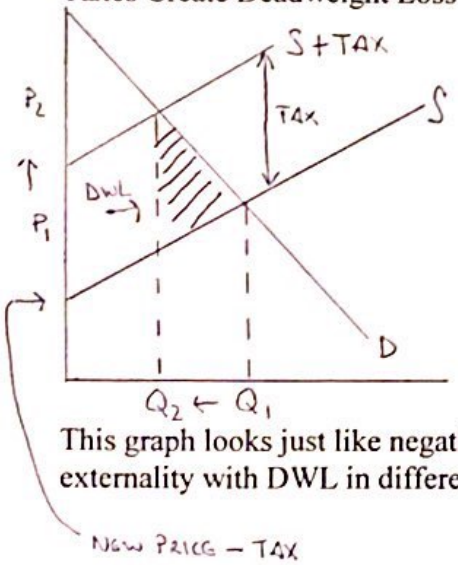
Monopolies & Monopolistically Competitive Firms = Price Maker

I can sell as much milk as I want so long as I sell at market price so MR = P = D



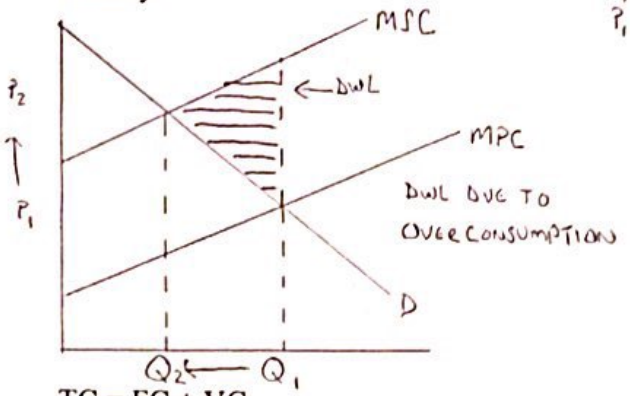
Diminishing Returns
As input factors increase growth declines
Test Scores with Studying
0 hours = 0
1 hour = 40 marg. Score 40
2 hours = 70 marg. Score 30
3 hours = 85 marg. Score 15
Total increases, but growth slows

Taxes Create Deadweight Loss

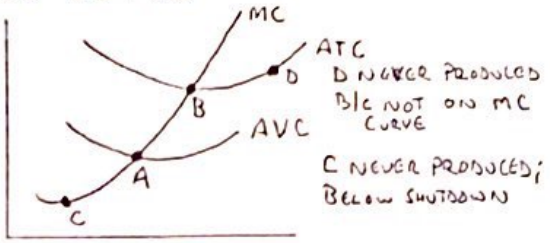


This graph looks just like negative externality with DWL in different place

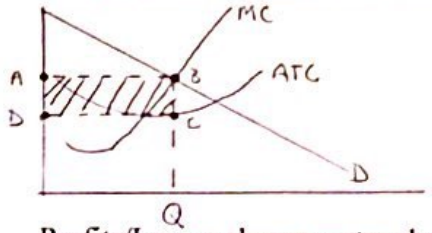
Externality = Inefficiency in Market so government steps in to correct. If negative then needs to encourage less so tax. If positive then needs to encourage more so subsidy.



TC = FC + VC

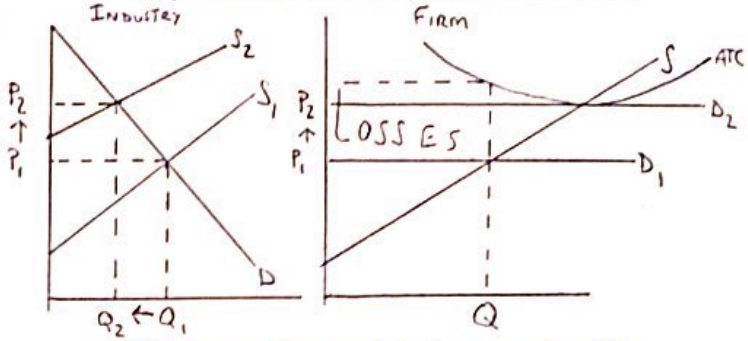


A = SHUTDOWN P = AVC
B = BREAK EVEN P = ATC
ATC is price per item which matches price



Profits/Losses always rectangle. Draw vertical line from Q produced. From there draw line from ATC and P intersection over to vertical axis. START WITH Q GO UP
PROFIT = ABCD

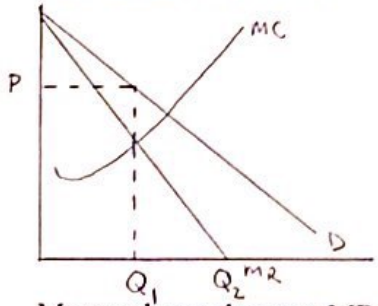
Entry-Exit of Firms Effect on Indiv. Firm



With losses firms exit industry so S shifts left causing P to ↑ until Firm profits = 0 in long term.

With profits firms enter industry shifts S right causing P to ↓ until Firm profits = 0 in long term.

MONOPOLY GRAPH



Monopoly produces at MR=MC. Price is vertical line at that quantity up to customer found on D.

Maximum Profit at MR = MC

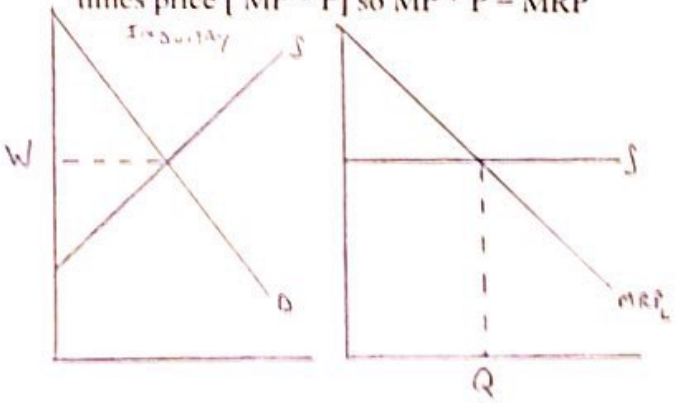
Maximum Revenue where MR = 0; Price is vertical line up to D
Elastic part of D is everything to left of MR = 0

Labor Market is all about MRP = W

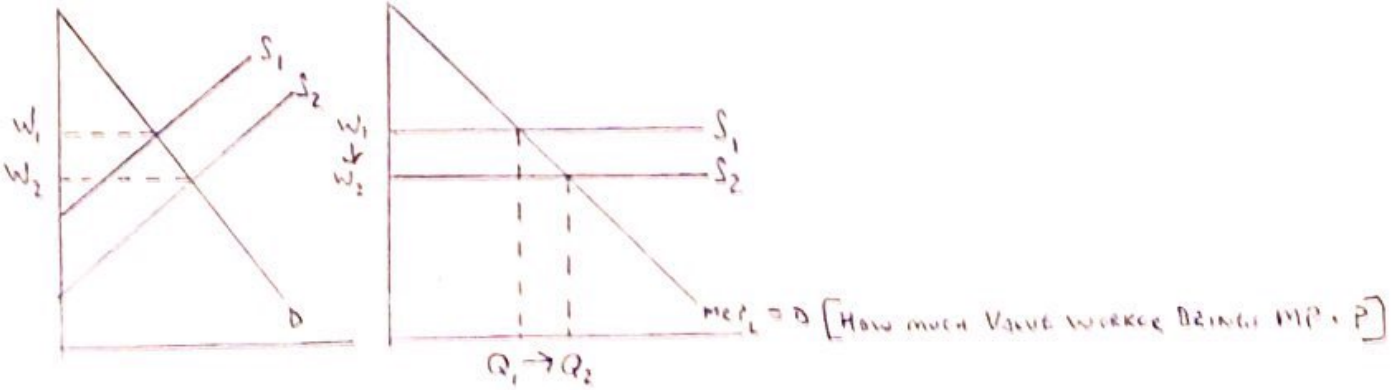
Firms in labor market are just like firms selling milk example. Have to match industry price (W)

Horizontal Supply because firms are "buying" workers.

D = MRP_L because value of worker is how much extra stuff made (Marg. Product) times price [MP * P] so MP * P = MRP



Firm can hire as many workers so long as matches industry price



Change in productivity does not change W

Change is Supply of Labor = change in W

Lorenz curve
Perfect income equality = 0 Gini Coefficient
1 is absolute income inequality

Perfect equality is 45° line
The more bowed away from center the more unequal the distribution