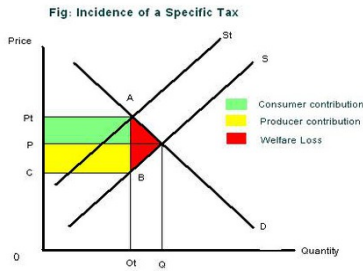


# MICROECONOMIC CONCEPTS

1. <b>Advantages of Specialisation</b>	<ul style="list-style-type: none"> <li>- Efficiency increases</li> <li>- Increases exports</li> <li>- Employment increases</li> <li>- Quality of product increases</li> <li>- Cost of product decreases</li> <li>- Profits increase</li> <li>- Quantity increases</li> </ul>	11. <b>Consumer surplus</b>	<ul style="list-style-type: none"> <li>- How much a buyer is prepared to pay minus how much they actually do</li> <li>- Calculate the area of triangle (top surplus price minus market price, timesed by market quantity then halved)</li> <li>- Difference between consumer surpluses is difference in triangle areas</li> </ul>
2. <b>Aggregate Demand</b>	<ul style="list-style-type: none"> <li>- Consumption is the biggest component</li> <li>- If C rises then assuming Ceteris Paribus, so will AD</li> </ul>	12. <b>Cost-benefit analysis</b>	<ul style="list-style-type: none"> <li>- Method of assessing the social costs and benefits of a big investment project</li> <li>- Applies a monetary value of every cost &amp; benefit</li> <li>- Social Benefits minus Social Costs</li> <li>- Limitations (eval): difficult to measure, unanticipated costs, future uncertain costs, information failure, opinionated</li> </ul>
3. <b>Allocative Efficiency</b>	<ul style="list-style-type: none"> <li>- Where an economy produces goods that consumers demand - only happens when social welfare is maximised (meeting the consumers wants)</li> </ul>	13. <b>Cross Elasticity of Demand (XED)</b>	<ul style="list-style-type: none"> <li>- The extent to which demand for one product changes in response to change of another product</li> <li>- %change in Qd of product A / %change in price of product B</li> </ul>
4. <b>Asymmetric Information</b>	<ul style="list-style-type: none"> <li>- When the consumer doesn't have the information that the producer has</li> <li>- Used to suppliers advantage</li> </ul>	14. <b>Demand</b>	<ul style="list-style-type: none"> <li>- The willingness and affordability to buy a product at a certain price level</li> </ul>
5. <b>The Basic Economic Problem</b>	<ul style="list-style-type: none"> <li>- The allocation of scarce resources between competing users</li> <li>- What goods and services should an economy produce?</li> <li>- How should goods and services be produced?</li> <li>- Who should get the goods and services produced?</li> </ul>	15. <b>Demerit Goods</b>	<ul style="list-style-type: none"> <li>- Social cost of consumption &gt; private cost of consumption</li> <li>- Over-provided (profit incentive) and over-consumed (cheap, ST pleasure) in free market</li> <li>- Cigarettes, burning fossil fuels</li> </ul>
6. <b>Calculating the externality</b>	<ul style="list-style-type: none"> <li>- Private costs + External costs = Social costs</li> <li>- Private costs effect the consumer/producer when they consume/produce the product</li> <li>- Private benefits + external benefits = social benefits</li> </ul>	16. <b>Direct Taxes</b>	<ul style="list-style-type: none"> <li>- Taxes on incomes and wealth</li> <li>- Income tax, Corporation tax, Inheritance tax, capital gains tax, national insurance contributions</li> </ul>
7. <b>Causes of Economic growth</b>	<ul style="list-style-type: none"> <li>- More availability of resources</li> <li>- Increase in Labour Force</li> <li>- BR increase, DR decrease</li> <li>- Migration</li> <li>- Women in work</li> <li>- More Capital per worker</li> <li>- Discovery + extraction of more resources</li> <li>- Improvements in organisation of workforce</li> <li>- Advances in technology</li> </ul>	17. <b>Disadvantages of Specialisation</b>	<ul style="list-style-type: none"> <li>- Can't produce other products</li> <li>- Increases reliance of imports</li> <li>- Limited skills</li> <li>- Structural Unemployment</li> <li>- Training</li> <li>- Output can be disrupted by weather, disease etc</li> <li>- If demand suddenly goes down due to other competitors or taste changes</li> <li>- Demand may remain high but supply cannot physically increase</li> </ul>
8. <b>Causes of Gov Failure (Trouble)</b>	<ul style="list-style-type: none"> <li>- Law of unintended consequences</li> <li>- Decisions solely for political interest</li> <li>- Low value for money from investment (could decrease productivity, bureaucracy costs, over-staffing)</li> <li>- Policy myopia (see only ST effects not LT)</li> <li>- Disincentives arising e.g. benefits</li> <li>- Information failure</li> <li>- Cost of regulation outweighs benefits e.g. smoking</li> </ul>	18. <b>Division of Labour</b>	<ul style="list-style-type: none"> <li>- Leads to greater skill and productivity than before</li> <li>- Need to match skills with equipment (E.G: technology may need to be brought in to aid the production process which may increase costs in the short term)</li> </ul>
9. <b>Ceteris Paribus</b>	<ul style="list-style-type: none"> <li>- All other things are equal/remain the same</li> </ul>	19. <b>Economic Goods</b>	<ul style="list-style-type: none"> <li>- Resources that are scarce</li> <li>- E.G: Fossil Fuels</li> </ul>
10. <b>Command Economy</b>	<ul style="list-style-type: none"> <li>- The government decides how resources are allocated</li> </ul>	20. <b>Elastic XED</b>	<ul style="list-style-type: none"> <li>- Close substitutes</li> <li>- Close complements</li> </ul>
		21. <b>Equilibrium</b>	<ul style="list-style-type: none"> <li>- Where demand meets supply marks the market price</li> </ul>

22. <b>Eval of Negative Externalities</b>	<ul style="list-style-type: none"> <li>- Imperfect knowledge: e.g. just how much CO<sub>2</sub> is responsible for climate change</li> <li>- Quantifying/measuring external costs: how do you put monetary value on certain products (pollution)</li> <li>- Size of welfare loss: estimate (based on above info) - difficult for gov to make correct decisions</li> </ul>	34. <b>(Functions of Price Mechanism) - Rationing Function</b>	<ul style="list-style-type: none"> <li>- Prices ration scarce resources when D outweighs S</li> <li>- Shortage = prices rise = only those willing and able to pay can buy product</li> <li>- Auctions are a way of allocating resources and clearing a market</li> </ul>
23. <b>Eval of Positive Externalities</b>	<ul style="list-style-type: none"> <li>- Imperfect knowledge: e.g. difficult to measure the LT benefits of education</li> <li>- Quantifying/measuring external benefits: putting a monetary value on flu vaccination and not getting the flu</li> <li>- Difficult to get gov intervention right: estimate (based on the above info) for gov to make decisions to increase the potential welfare gain</li> </ul>	35. <b>(Functions of Price Mechanism) - Signalling Function</b>	<ul style="list-style-type: none"> <li>- Adjust to demonstrate where/where not resources needed</li> <li>- Prices rise &amp; fall to reflect scarcities and surpluses</li> <li>- High demand = prices rise = signal for suppliers to expand production (meet higher demand)</li> <li>- Excess supply = prices fall = eliminates surplus</li> </ul>
24. <b>Examples of subsidies</b>	<ul style="list-style-type: none"> <li>- Education: student loan, grants</li> <li>- Heating</li> <li>- Farming</li> <li>- Rail travel</li> <li>- Home insulation scheme</li> </ul>	36. <b>(Functions of Price Mechanism) - Transmission of preferences</b>	<ul style="list-style-type: none"> <li>- Consumers send information to producers about changing nature of needs and wants through their choices</li> <li>- Higher prices = incentive to raise output because profit for S increases</li> <li>- Low demand (recession) = supply decreases because S cut back on output</li> </ul>
25. <b>Excess Demand</b>	<ul style="list-style-type: none"> <li>- High demand and low supply (price too low for producers to sell and make big profit)</li> <li>- The bit below the equilibrium on the graph</li> </ul>	37. <b>Government Failure (Double)</b>	<ul style="list-style-type: none"> <li>- Government intervention leading to a further increase in inefficiency/net welfare loss/misallocation of resources</li> <li>- Why: issues with information, incentives, income distribution</li> <li>- E.g. EMA (incentives), CAP (price out farmers in 3rd world)</li> </ul>
26. <b>Excess Supply</b>	<ul style="list-style-type: none"> <li>- Low demand and high supply (price too high for consumers to afford)</li> <li>- The bit above the equilibrium on the graph</li> </ul>	38. <b>Impact of an indirect tax</b>	<ul style="list-style-type: none"> <li>- Size of tax per unit = size gap between supply lines along the changed line (P1 &amp; Q1)</li> <li>- Area of this line to y axis = total tax revenue</li> <li>- Area below this is producer revenues</li> </ul>
27. <b>Externality</b>	<ul style="list-style-type: none"> <li>- The cost or benefit of an economic activity which is NOT reflected in the price but is passed onto society/third party</li> </ul>	39. <b>Imperfect Information</b>	<ul style="list-style-type: none"> <li>- Making decisions based on incorrect information leading to a misallocation of resources</li> <li>- Consequences: Burden on NHS, obesity</li> </ul>
28. <b>Factors affecting supply of labour</b>	<ul style="list-style-type: none"> <li>- Migration</li> <li>- Bonuses</li> <li>- Minimum wage</li> <li>- Substitute occupations</li> <li>- Training</li> </ul>	40. <b>Incidence of an indirect tax</b>	<ul style="list-style-type: none"> <li>- Same graph as for a specific/unit tax except that the S1 curve pivots away from the S curve because the tax is levied</li> <li>- Therefore size of the tax changes as the gap widens</li> </ul>
29. <b>Finite</b>	<ul style="list-style-type: none"> <li>- Limited resources</li> </ul>		
30. <b>Free Goods</b>	<ul style="list-style-type: none"> <li>- Resources that are not scarce</li> <li>- E,G: Water, air, intellectual ideas, by-products</li> </ul>		
31. <b>Free Market Economy</b>	<ul style="list-style-type: none"> <li>- The allocation of resources is left to market forces</li> <li>- +ve: Acts within self-interest, saves time &amp; money (no implementation), high competition (inc productivity), Consumer Sovereignty (consumers get what they want, not what the central planners tell the S to make)</li> <li>- -ve:</li> </ul>		
32. <b>Free-Rider Problem</b>	<ul style="list-style-type: none"> <li>- Someone who receives the benefit of a good, but allows others to pay for it</li> <li>- Consequence: no one wants to pay for it so no demand curve</li> </ul>		
33. <b>Functions of price mechanism (FoPM)</b>	<ul style="list-style-type: none"> <li>- Describes the means by which millions of decisions taken by consumers and businesses interact to determine the allocation of scarce resources between competing users</li> </ul>		

41. **Incidence of a specific/unit tax**



- Incidence = who carries the burden of the tax
- Area of P & Q = producer revenue
- S1 moves supply line up after tax is added moving the producer revenue to the area of X (where it intersects S) & q1
- Area above between P1 and X is the incidence of the tax which is split into producer (bottom, X to P) and consumer (top, P to P1) burden

42. **Income elastic**

- When the demand for a good changes by a greater proportion than income
- Luxury goods

43. **Income elasticity of demand (YED)**

- The responsiveness of a change of quantity demanded to a change in income
- %change in Qd / %change in Y

44. **Income inelastic**

- When the demand for a good changes by a smaller proportion than the income
- Necessity goods

45. **Index Numbers**

- Used to compare data over a period of time
- $(\text{New value} / \text{Base Year value}) \times 100$

46. **Indirect Taxes**

- Taxes on expenditure
- Included in the price of a good when the good is sold to the consumer
- Betting & gaming, VAT, landfill tax, air passenger duty, stamp duty, excise duties, insurance premium tax

47. **Inelastic XED**

- Distant substitutes
- Distant complements

48. **Inferior goods (YED)**

- Negative YED
- If our income rises, our spending decreases on these goods
- Value goods
- Negative YED

49. **Infinite**

- Unlimited resources/wants

50. **Information Failure**

- Free market assumes perfect info therefore resources allocated efficiently
- When consumers are provided with inadequate information so that incorrect purchasing decisions are made

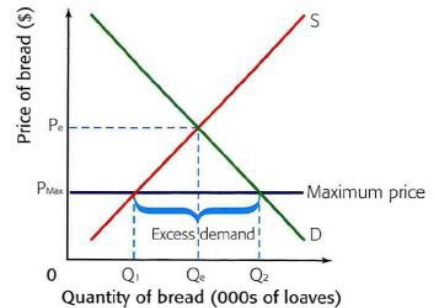
51. **Interpreting XED**

- Positive 0-1 = distant (weak) substitutes
- Positive >1 = close (strong) substitutes
- Negative 0-1 = distant (weak) complements
- Negative <-1 = close (strong) complements
- Zero = independent goods - no relationship between them

52. **Maximum Prices (ceiling prices)**

- Gov sets a maximum price below the equilibrium price so producers can't raise price above it
- Mostly for necessity goods
- Consumer benefit, firms lose out - excess demand

53. **Max Price Diagram (ex. demand)**



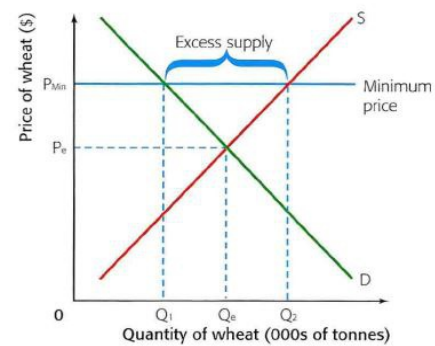
54. **Merit Goods**

- Marginal social benefits > marginal private/social costs
- Under-provided (no profit incentive) and under-consumed (expensive, uncertainty for LT effects)
- Education, NHS, cycling, museums, vaccines

55. **Minimum Prices (floor prices)**

- Gov sets min price above equilibrium preventing producers from setting price below equilibrium price
- Demerit goods, CAP, minimum wage
- Consumers lose out - prices higher
- Eval: producers could lose competition therefore profits

56. **Min Price Diagram (ex. supply)**



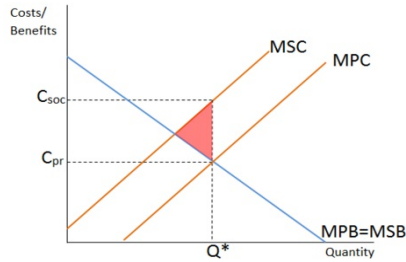
57. **Mixed Economies**

- Some resources allocated by government and some by market forces

58. **Negative Externality**

- External cost on the third parties from some form of economic activity (litter dropped from someone's food)
- Come about due to Market Failure (due to a misallocation of resources - firm overproduces because it doesn't pay for external costs), natural disasters, underconsumption

59. **Negative Externality diagram**



- Distance between MSC & MPC = external costs
- Red triangle = welfare loss (due to overproduction in fm)
  - $Q^*$  = fm level of production
  - $Q$  (tip of triangle) = social optimum level of production
- MPB increases as  $Q$  increases if there is a tax imposed

60. **Normal goods (YED)**

- Positive YED
- If our income rises, our spending increases on these goods
- Necessity goods (income inelastic)
- Luxury goods (income elastic)
- Positive YED

61. **Normative Statements**

- Judgments that are based on opinion which can't be verified by data or further investigation
- Contains "ought", "better", "should" and "fair"

62. **Opportunity Cost**

- The value of the next best alternative foregone

63. **Opportunity Cost Formula**

Total Lost / Total Gained

64. **PES elastic**

- Very responsive to a change in price
- Flat curve
- Resources easily available
- Can be stored for a long time
- Low cost of production
- Low unemployment
- Easy to switch resources and goods produced
- Short production time
- Longer time period under consideration
- Elastic in the long term
- PES more than 1

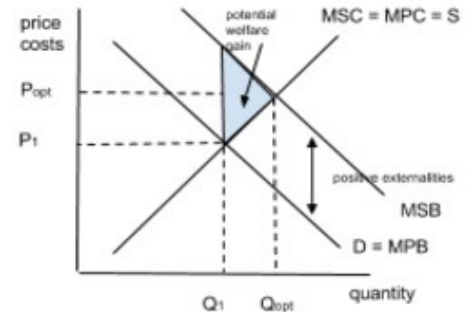
65. **PES inelastic**

- Not very responsive to a change in price
- Steep curve
- Completely vertical = completely PES inelastic
- Resources aren't easily available
- Can't be stored for a long time
- High cost of production
- High unemployment
- Hard to switch between resources and goods produced
- Long production time
- Shorter time period under consideration
- Inelastic in the short term
- PES between 0 and 1

66. **Positive Externality**

- External benefit gained on the third party from some form of economic activity (e.g. smell of fresh bread)
- Come about because they are under-consumed in the fm due to a mis-allocation of resources (mf)
- Individuals see the private benefits so consume whilst benefiting third parties

67. **Positive Externality diagram**



- MPB increases as  $Q$  increases if there is a tax imposed

68. **Positive Statements**

- Statements that can be proved using data and verification

69. **Price elastic**

- Very responsive to a change in price
- Flat (horizontal) curve
- Many substitute goods
- Luxury goods
- Large proportion of income spent on the good
- More elastic in the long term
- PED is greater than 1

70. **Price elasticity of demand (PED)**

- The responsiveness of DEMAND to a CHANGE in PRICE
- $\% \text{change in } Q_d / \% \text{change in } P$

71. **Price Elasticity of Supply (PES)**

- Responsiveness of supply to a change in price
- $\% \text{change in } Q_s / \% \text{change in } P$

72. **Price inelastic**

- Not very responsive to a change in price
- Steep (vertical) curve
- Not many substitutes
- Necessity good
- Only a small proportion of income spent on good
- Brand loyalty
- More inelastic in the short term
- PED is less than 1

73. **Price Mechanism**

- The means by which millions of decisions taken by consumers and businesses interact to determine the allocation of scarce resources between competing users

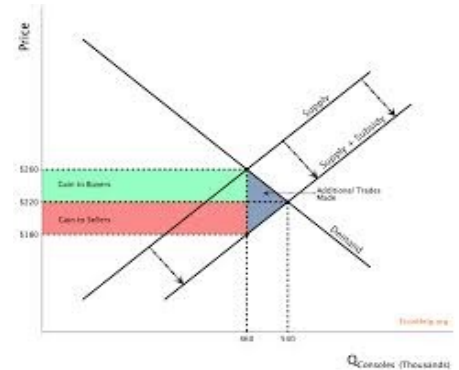
74. **Private Goods**

- Goods and services that involve excludability (not having the money to buy) and rivalry (available for one person but not available once they've consumed it)
- E.g. Chocolate, Limited edition ferrari

75. <b>Problems of maximum prices (Black)</b>	- Black economy: No GDP or tax - Happens when excess demand (shortage) - Consumers willing to pay above max price - E.g. Tickets, illegal selling of technology
76. <b>Producer surplus</b>	- The market price minus how much sellers are prepared to accept for a good - Area of the bottom triangle (market price minus lowest price, timesed by market quantity then halved) - Difference in triangle area = change in producer surpluses
77. <b>Production Possibility Frontier Definition</b>	- The max possible combinations of two goods that a country can produce in a specified period of time with all of its resources fully and efficiently used
78. <b>Productive Efficiency</b>	- Where it is not possible to produce more of another good without producing less of another good
79. <b>Public Goods</b>	- Non-rival (infinite availability) and non-excludable (available for everyone) - E.g. Street lighting, NHS
80. <b>Quasi-public Goods</b>	- Goods that are to an extent non-rival and non-excludable - E.g. Beaches, public parks, roads
81. <b>Rationing function (FoPM)</b>	- Prices need to limit scarce resources
82. <b>Revenue</b>	- When a seller decides to raise or lower the price of a product and how it effects how much they earn - Revenue = price of good x quantity sold
83. <b>Rewards of Factors of Production</b>	- Land: Self-sufficient, sell, more labour, natural resources, space to build - Labour: employment, wages, experience - Capital: efficiency, save money, better quality - Enterprise: profit, investment
84. <b>Scarcity</b>	- How a limited amount of resources are distributed at any given time - Not enough resources to go round - LEDCs suffer the most
85. <b>Shifting the PPF</b>	- Land: Increase in space, demolition of houses - Labour: Larger workforce, lowering income tax encouraging people to go into work, education - Capital: machinery saves money on worker's wages + illness
86. <b>Shifting the PPF backwards</b>	- War - Natural Disasters - Recession - Strikes - Unemployment - Decrease in Productivity - Fall in production - Decrease in capital stock due to lack of money/subsidies

87. <b>Signalling Function (FoPM)</b>	- Prices adjusted to where they're needed and where they're not
88. <b>Social Sciences</b>	- Put forward a hypothesis and gather data to test this - Can't be tested easily and data is always changing - Made sense of by using models and theories
89. <b>Specialisation by division of labour</b>	- No-one worker makes the whole product. Each worker specialises in a specific small part of the production process
90. <b>Specialisation by producers</b>	- Specialises in making a specific type of product to satisfy the consumers wants
91. <b>Specialisation Definiton</b>	- Concentration by workers, firms, areas or countries on a particular product or a few products, or a particular task or a narrow range of products
92. <b>Strengths of Min Wage (happy wage)</b>	- Less income inequality - Stop exploitation/cheap labour - Multiplier effect - Inc living standards
93. <b>Subsidies Definition</b>	- A subsidy is a grant of money given by government to encourage the production or consumption of a particular good

94. **Subsidy graph**



94. <b>Subsidy graph</b>	- Same as the specific/unit tax graph except S1 curve shifts right and the cost of the subsidy is the gap between the two lines - The producer will pass some of the subsidy to the consumer so that the price is lowered and some benefits are passed on to the consumer
95. <b>Sustainable Resources</b>	- Particular type of renewable resource - These can be exploited economically and not run out - E.G: forests are renewable but only are sustainable if they survive from other economic activities such as farming
96. <b>Symmetric Information</b>	- When producers and consumers have access to the same amount of information about the product
97. <b>Total expenditure</b>	- The amount buyers spend on a product - Quantity sold x price



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98. **Transmission of preferences (FoPM)** - Consumers communicate to producers about their changes in wants and needs from changes in their choices
- 
99. **Types of indirect taxes** - Specific or unit tax: tax levied on each unit sold (e.g. £1 per bottle of wine sold)  
- Ad Valorem tax: tax levied as a percentage of the value of the good (e.g. VAT)
- 
100. **Weaknesses of Min Wage (sad wage)** - Firms have to make cuts  
- Unemployment/redundancy  
- Negative multiplier  
- Dec productivity  
- Competition for jobs (excess supply - less jobs available)
- 
101. **Why are PPFs curved** - Some resources are better at making one product than another  
- Some workers aren't as skilled in different sectors  
- Some machinery is better at making product than another (impact factor sustainability - difficult to substitute factors from making product to another)
- 

