

Defenitions

SUPPLY & DEMAND- determine the quantity of each good produced & the price of which its sold.

MARKET-a group of buyers & sellers of a particular good or service.(the buyers as a group determine the demand for the product & the sellers the supply).

COMPETITIVE MARKET-a market in which there are so many buyers & so many sellers that each has a negligible impact on the market price.

QUANTITY DEMANDED-the amount of the good that buyers are willing & able to purchase.

LAW OF DEMAND When the price of a good rises, the quality demanded of the good falls, & when the price falls, the quantity demanded rises.

DEMAND SCHEDULE-A table that shows the relationship between the price of a good & the quantity demanded, holding constant everything else that influences how much of the good consumers want to buy.

DEMAND CURVE-the lien relating price & quantity demanded.

MARKET DEMAND-the sum of all the individual demands for a particular good or service **curve to the right increase in demand,curve to left decrease in demand.**

NORMAL GOOD-the demand for a good falls when income falls.

INFERIOR GOOD-the demand fora good rises when income falls.

SUBSTITUTES-A fall in price of one good reduces the demand for another good.

COMPLEMENTS-the fall in one goods price raises the demand for another good.

QUANTITY SUPPLIED-the amount that sellers are wiling and able to sell.

LAW OF SUPPLY when the price of a good rises the quantity supplied of the good also rises, when the price falls the price quantity supplied falls as well.

SUPPLY SCHEDULE-shows the relationship between the price of a good & the quantity supplied, holding constant everything else that influences how much producers of the good want to sell.

SUPPLY CURVE-relates price and quantity supplied.

Defenitions (cont)

EQUILIBRIUM -The point at which the supply & demand curves intersect **equilibrium price** price at the intersection **equilibrium quantity**quantity at the intersection.

SURPLUS- suppliers are unable to sell all they want at the going price.

SHORTAGE-demanders are unable to buy all they want at the going price, falling prices in turn increase the quantity demanded & decrease the quantity supplied.

ELASTICITY a measure of the responsiveness of quantity demanded or quantity supplied to a change in one of its determinants.

LAW OF DEMAND states that a fall in the price of a good raises the quantity demanded.

PRICE ELASTICITY OF DEMAND a measure of how much the quantity demanded of a good responds to a change in the price of that good.

elastic if the quantity demanded responds substantially to changes in the price. **inelastic** if it responds only slightly to changes in the price. **goods with close subs tend to have more elastic demand, necessities tend to have inelastic demands whereas luxuries have elastic demands.**

TOTAL REVENUE the amount paid by buyers & received by sellers of a good.**inelastic demand cause an increase in the price and causes an increase in TR, elastic and increase in price cause a decrease in TR.**

Elasticity greater than 1 move in opp directions, less than 1in same direction, unit elasticity or equal to 1 TR remains constant

INCOME ELASTICITY OF DEMAND a measure of how much the quantity demanded of a good responds to a change in consumers income.

MACROECONOMICS the study of economy-wide phenomena including inflation unemployment & economic growth.

MICROECONOMICS the study of how households & firms make decisions and how they interact in markets.

Defenitions (cont)

GDP measures the total income of a nation, it is the most closely watched economic statistic, best single measure of society's economic well being. It measures two things at once: the total income of everyone in the economy & the total expenditure on the economies output of goods & services.

*economy's income is the same as its expenditure, cuz of buyers and sellers**
 $Y=C+I+G+NX$

CONSUMPTION spending by households on goods and services, with the exception of purchases of new housing(autos, appliances, food clothes)

INVESTMENT the purchase of goods that will be used in the future to produce more goods & services.

GOVT PURCHASES include spending on goods & services by local,state,& federal govts(includes the salaries of govt workers as well as expenditures on public works)

NET EXPORTS equal the foreign purchase of domestically produced goods(exports) minus the domestic purchases of foreign goods(imports)

NOMINAL GDP the production of goods and services valued at current prices.

REAL GDP the production of goods and services valued at constant prices.

INFLATION RATE the percentage change in some measure of the price level from one period to the next.

CPI a measure of overall cost of the goods & services bought by a typical consumer.

PRODUCER PRICE INDEX a measure of the cost of a basket of goods and services bought by firms.

INDEXATION the automatic correction by law or contract of a dollar amount for the effects of inflation.

NOMINAL IR The interest rate as usually reported without a correction for the effects of inflation(how fast money in your bank rises over time)

REAL IR the interest rate corrected for the effects of inflation(how much your purchase power increase over time)

3 Steps to analyzing change in equilibrium

Defenitions (cont)

1) Decide whether the event shifts the supply curve, the demand curve, or some times both. 2) Decide whether the curve shifts to right or left. 3) Use supply & demand diagram to compare the initial & new equilibrium.

GDP deflator vs CPI

the first difference is that GDP D reflects the price of all goods and services produced domestically, CPI reflects the price of all goods & services bought by consumers. The second is how various prices are weighted to yield a single number for the overall level of prices. CPI compares the price of a fixed basket of goods & services to the price of the basket in base year, GDP D compares the price of currently produced goods & services to the price of the same goods & services in the base year.

FACTS

the slope of a linear demand curve is constant, the elasticity is not because the slope is the ratio of changes in the two variables, whereas elasticity is the ratio of percentage changes in the two variables

at points a low price & high quantity the demand curve is inelastic. At points with a high price & low quantity the demand curve is elastic.

Normal goods- have positive income elestacities. Inferior goods- have negative income elestacities.

Real vs Nominal- One of two things have to be true is TR increase from one year to the next: The economy is producing a larger output of goods & services OR goods & services are being sold at higher prices

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