

<p style="text-align: center;"><b>DEMAND</b></p> <p><b>Demand is the quantity of a good/service that consumers are willing and able to buy at a given price. A demand curve shows the relationship between price and quantity</b></p> <p><b>Contraction/Extension</b>  <i>A movement along the demand curve caused by a change in price</i></p> <p><b>Increase or Decrease in demand is shown by a shift</b>  <i>Factors that can cause a shift:</i></p> <p><b>PASIFIC</b>  <i>Population, Advertising, Substitutes, Income, Fashion and trends, Interest rates, Complements</i></p> <p><b>Normal/Inferior goods</b>  Normal goods are those that increase in demand as income rises, whilst demand for inferior goods fall as income rises</p> <p><b>Consumers aim to maximise utility</b></p>	<p style="text-align: center;"><b>SUPPLY</b></p> <p><b>Supply is the quantity of a good/service that producers supply at any given price. A supply curve shows the relationship between price and quantity</b></p> <p><b>Contraction/Extension</b>  <i>A movement along the supply curve caused by a change in price</i></p> <p><b>Increase or Decrease in supply is shown by a shift</b>  <i>Factors that can cause a shift:</i></p> <p><b>PINTSWC</b>  <i>Productivity, Indirect taxes, Number of firms, Technology, Subsidies, Weather, Cost of Production</i></p> <p><b>Producers aim to maximise profit</b></p>	<p style="text-align: center;"><b>CONSUMER AND PRODUCER SURPLUS</b></p> <p><b><u>Consumer surplus</u> is the difference between the price that a consumer is willing to pay and the price that they actually pay.</b></p> <p><b><u>Producer surplus</u> is the difference between the price that the producer is willing to supply the good at and the price that they actually receive.</b></p> <p>A shift in demand or supply will cause the price to fall or rise, which will then lead to changes in the consumer or producer surplus</p>	<p style="text-align: center;"><b>THE BASIC ECONOMIC PROBLEM</b></p> <p><b>The basic economic problem is one of scarce resources and infinite wants.</b></p> <p>This means resources have to be allocated and there are two main ways: <u>Command</u> (government control) or <u>Free Market</u> (private ownership and use of the price mechanism) – most economies will use a mixture of the two.</p> <p><b>Opportunity cost is the next best alternative foregone</b> when making decisions about allocating resources.</p>
<p style="text-align: center;"><b>ELASTICITIES OF DEMAND</b></p> <p><b>PED – Responsiveness of demand to a change in price: Elastic &gt; 1, Inelastic &lt; 1, Unitary = 1</b></p> <p><b>It is affected by:</b>  <i>Substitutes, Type of good or service (habit forming, luxury), % of income spent and time</i></p> <p><b>YED - Responsiveness of demand to a change in income: + is a normal good and – is an inferior good</b></p> <p><b>XED - Responsiveness of demand for good X to a change in price of good Y: + is a substitute good and – is an complementary good</b></p>	<p style="text-align: center;"><b>PRICE ELASTICITY OF SUPPLY</b></p> <p><b>The responsiveness of supply to a change in price: Elastic &gt; 1, Inelastic &lt; 1, Unitary = 1</b></p> <p><b>It is affected by:</b>  Time is the most crucial factor when it comes to PES – in the SR it is often inelastic but over time producers respond due to the <b>functions of the price mechanism - SIR:</b>  <b>Signalling, Incentives, Rationing device</b></p> <p>Other factors: Perishable, Spare capacity, Stock levels, Flexible factors of production</p>	<p style="text-align: center;"><b>SUBSIDIES AND INDIRECT TAXES</b></p> <p><b>A <u>subsidy</u> is money paid by the government to the producer of a good or service to make it cheaper than it would otherwise be</b></p> <p><b>An <u>indirect tax</u> is an amount charged to a producer for providing a good or a service and so makes it more expensive – a <i>specific tax</i> is a specific amount (e.g. 10p) and <i>ad valorem</i> is a percentage (e.g. 5%)</b></p> <p>Consumers and producers gain from a subsidy but lose out from a tax. The amount they gain or lose will be dependent on the <b>elasticity</b> of demand in each case</p>	<p style="text-align: center;"><b>MARKET FAILURE</b></p> <p><b>Market failure is when the market does not allocate resources effectively.</b></p> <p><b>Public goods</b> – Goods are non-excludable and non-rivalrous – e.g. street lights. Some goods are seen as quasi-public goods - NHS</p> <p><b>Merit/Demerit goods/services</b> - the market over provides or under provides certain goods that produce <u>positive or negative externalities</u> (impact on a third party) – e.g. alcohol</p> <p><b>Information gaps</b> – <u>asymmetric information</u> means the one party in a transaction has more information than the other</p>
		<p style="text-align: center;"><b>BEHAVIOURAL ECONOMICS</b></p> <p><b>Behavioural economics challenges the idea that we are ‘homo economicus’ – we make irrational decisions due to a number of different factors:</b></p> <p>Computational weakness, influence of other people and habitual behaviour.</p> <p><b>Bounded rationality means making decisions that do not fully maximise utility but satisfy.</b></p> <p>In order to make decisions, we use <b>heuristics</b> (rules of thumb) and these can lead to poor decision making, e.g. <i>availability bias, representativeness, weighting</i>. Government can use <b>nudges</b> to help us make better decisions through the use of <i>priming, default options, framing and limited choice</i></p>	<p style="text-align: center;"><b>GOVERNMENT INTERVENTION</b></p> <p>Government intervenes in the following ways: taxation, subsidies &amp; the use of minimum and maximum prices.</p> <p><b>Minimum price</b> – where the price can’t go below a certain point, e.g. NMW or CAP</p> <p><b>Maximum price</b> – where the price can’t go above a certain point, e.g. Rent control</p> <p>Also they can use: Trade <b>pollution permits</b>, state provision of <b>public goods, regulation</b> and provision of information</p> <p><b>Government failure is when government intervention causes a misallocation of resources and creates a net welfare loss</b></p> <p>The main causes of government failure are distortion of price signals, unintended consequences (e.g. job losses), excessive admin costs and information gaps</p>