

Unit 7

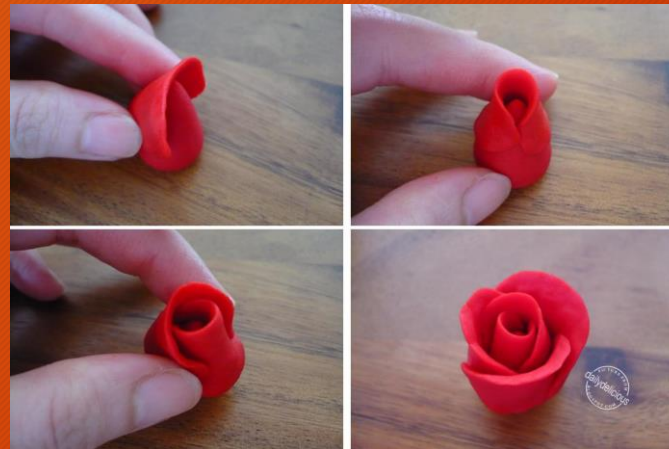
Decisions, Decisions

What questions are we trying to answer?

What to Produce?



How do we produce it?



For whom do we produce?



Supply and Demand

- Demand: the desire to own something
- Law of Demand: when everything is equal, as price decreases people are willing to buy more. So as price increases...
- Supply: The amount of goods and services that businesses are willing to sell
- Law of Supply: businesses make more at higher prices and less at...



Elasticity

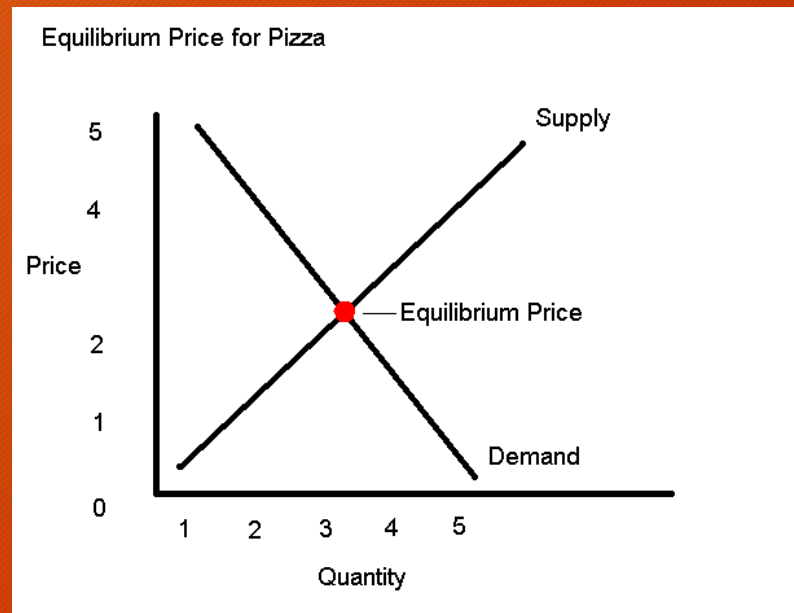
How much something changes; flexibility

Elasticity of Demand and Supply

- Elastic demand: sensitive to change
 - Coffee, airline tickets, stocks
- Inelastic demand: does not change because there are few substitutes (we need it)
 - Gasoline, water
- Elastic supply: a small increase in price has a big impact
 - Name brands
- Inelastic supply: a small increase in price will have a small impact
 - Gasoline

Equilibrium

- Equilibrium Point is where supply and demand meet. Producers are making the most profit and consumers are happiest with the price.



If you have an excess (too much)

- Excess Demand = more in demand than is in supply
 - Shortage
- Excess Supply = more is in supply than is demanded
 - Surplus

Law of Diminishing Returns

- When you have too many of a factor of production you lose productivity
 - Too many cooks in the kitchen
 - Too many ovens, not enough cooks

Price Ceiling and Floor

- Ceiling: A maximum price that can be legally charged for a good or service
 - Rent Control
- Floor: A minimum price for a good or service
 - Minimum Wage