Economics

Scarcity and choice

Scarcity means resources are limited relative to human wants. Because resources have alternative uses, choosing one use can require giving up another. Opportunity cost is the value of the next best alternative forgone. It is not necessarily the total money spent on a decision. If an hour spent studying replaces an hour of paid work, the forgone work can be part of the opportunity cost.

The factors of production are land, labour, capital and enterprise. In this classification, capital means produced resources used in production, such as machinery and tools; it does not simply mean money. Enterprise involves organising resources and bearing business risk. A production possibility frontier shows combinations of two outputs that can be produced using available resources and technology.

Economics

Demand and supply

Demand is the quantity consumers are willing and able to buy at a given price over a period. Other things equal, a higher price usually reduces quantity demanded. A change in the good's own price produces a movement along its demand curve. A change in income or preferences can shift the demand curve. These are different from a movement caused by the price of that same good.

Supply is the quantity producers are willing and able to sell at a given price over a period. Other things equal, a higher price usually increases quantity supplied. Higher production costs can reduce supply, shifting the supply curve left. Improved productive technology can increase supply. The simple curves assume other relevant conditions remain unchanged when examining the relationship with the good's own price.

Economics

Equilibrium and responsiveness

Market equilibrium occurs where quantity demanded equals quantity supplied. At a price below equilibrium, quantity demanded exceeds quantity supplied, creating excess demand in the simple model. At a price above equilibrium, quantity supplied exceeds quantity demanded, creating excess supply. An increase in demand with supply unchanged generally raises equilibrium price and quantity in the standard upward-sloping supply model.

Price elasticity of demand measures how responsive quantity demanded is to a price change. It is calculated as the percentage change in quantity demanded divided by the percentage change in price. When discussing its magnitude, demand is elastic if the absolute value is greater than one, inelastic if less than one, and unit elastic if equal to one. These study notes explain a simplified model, not financial advice.