

## IB Economics Year 1

## Unit 2

## Supply and Demand

### Economic Terminology

Self-interested

*“The Invisible Hand”*

Efficiency

Competition

Market

Demand Schedule

Demand Curve

Demand

Quantity Demanded

The Substitution Effect

The Income effect

Supply Schedule

Supply Curve

Supply

Quantity Supplied

*Ceteris Paribus*

Substitutes

Complements

Shortage – Excess Demand

Surplus – Excess Supply

Law of Supply

Law of Demand

Equilibrium price and quantity

Market Clearing Price

Consumer Surplus

Producer Surplus

Incentive function

Signaling function

### Concepts/Objectives:

1. Compare and contrast the different types of economies ~~including the different definitions of property rights.~~
2. Explain and distinguish between the concepts of quantity demanded and demand and quantity supplied and supply in writing and on a graph.
3. Explain and illustrate how the demand curve shows the relationship between quantity demanded and price.
4. Explain how the supply curve shows the relationship between quantity supplied and price.
5. Indicate and describe the determinants of demand and supply.
6. Understand how and why supply and demand curves shift.
7. Use supply and demand graphs to illustrate the concept of equilibrium price and quantity.
8. Explain how price changes in the market cause re-allocation of resources in the economy.
9. Distinguish between individual demand and market demand and between a firm's supply curve and a market supply curve.

### Graphs:

- Supply and Demand
  - Shifts
  - Surplus, shortage at a specific price
  - Equilibrium and Market Clearing Price
- Consumer Surplus and Producer Surplus
- Quantity Demand vs. Demand
- Quantity Supplied vs. Supply

<p><b>Assignments:</b> Block B Due Tuesday 9/25</p> <p>Block E/G Due Wednesday 9/26</p>	<p><b>HW 2.1</b> read Ch 2 p. 20-25 <u>Answer with a graph and an explanation of the determinant of the change for each</u> questions p. 25 # 1f and #2 a-c <b>and additional question:</b> Use the concept of Demand and a graph to explain this statement:</p> <ul style="list-style-type: none"> <li>The demand for Spanish oranges has increased as the price of Italian oranges rose due to drought.</li> </ul>
<p>Block B Due Monday 10/1</p> <p>Block E/G Due Tuesday 10/2</p>	<p><b>HW 2.2</b> Read Chapter 2 p. 26-29 <u>Answer with a graph and an explanation of the determinant of the change for each</u> questions p. 30 # 1e and #3 a-c <b>and additional question:</b> Use the concept of Supply and a graph to explain this headlines impact on the market for fuel:</p> <ul style="list-style-type: none"> <li>“To save money the government is eliminating the subsidy for fuel.”</li> </ul>
<p>Block B Due Wednesday 10/3</p> <p>Block E/G Due Thursday 10/4</p>	<p><b>HW 2.3</b> Read chapter 2 p. 30-33 <u>Answer with a graph and an explanation of the determinant of the change for each</u> questions p. 32 # 3 a-b <b>and additional questions:</b> 1. With a graph and in writing show how a market that is experiencing a shortage will return to equilibrium at the market clearing price. Add numbers to your graph. 2. During the rainy season the market price of umbrellas goes up and the quantity of umbrellas sold also rises. Is this a violation of the law of Demand?</p>
<p>Block B Tuesday October 16</p> <p>Block E/G Wednesday October 17</p>	<p>Quiz on objectives 5, 6 and 7 6 questions – 30 minutes</p>
<p>Block B Due <b>Thursday 10/25</b></p> <p>Block E/G Due Sunday 10/28</p>	<p>Take home Practice Long Answer question</p>
<p>Block B <b>Monday 10/29</b> Block E/G Tuesday 10/30</p>	<p><b>Unit Test –</b></p>

Review Questions:

1. What is the difference between Demand and Quantity Demanded?
2. Why does the demand curve slope downward? Why is the supply curve upward sloping?
3. Why is the equilibrium price called the market clearing price?
4. Why does a surplus cause a decrease in price?
5. Consider the market for coffee. A decrease in demand causes a decrease in price. How does this price change act as an incentive to both consumers and firms?