

Learn these by heart before the exam.

Basic economic ideas

Opportunity cost: the value of the next-best alternative given up when a choice is made

PPC (production possibility curve): shows the maximum output combinations; a point inside = spare capacity, a shift out = growth

Positive statements are factual and testable; normative statements are value judgements (should / ought).

Factors of production: land, labour, capital, enterprise – each earns rent, wages, interest, profit.

Demand, supply and elasticity

Demand and supply: equilibrium price is where quantity demanded = quantity supplied; a shortage pushes price up, a surplus pushes it down

$$PED = \frac{\% \Delta Q_d}{\% \Delta P} \quad \text{elastic } |PED| > 1, \text{ inelastic } < 1$$

$$YED = \frac{\% \Delta Q_d}{\% \Delta \text{income}} \quad \text{normal good } > 0, \text{ inferior good } < 0$$

$$PES = \frac{\% \Delta Q_s}{\% \Delta P}$$

Total revenue rises when price falls if demand is elastic; falls if inelastic.

Consumer and producer surplus: consumer surplus = what buyers would pay – what they do pay; producer surplus = price received – minimum acceptable

Costs, revenue and market structures

$$TC = TFC + TVC, \quad AC = \frac{TC}{Q}, \quad MC = \frac{\Delta TC}{\Delta Q}$$

profit = $TR - TC$ maximised where $MC = MR$; normal profit when $AR = AC$

Economies of scale: average cost falls as output rises (buying, technical, managerial, financial); diseconomies raise it again

Market structures: perfect competition (many firms, price takers) → monopolistic competition → oligopoly (few, interdependent) → monopoly (one, price maker)

Allocative efficiency at $P = MC$; productive efficiency at minimum AC – a monopoly usually achieves neither.

Market failure and intervention

Externality: a spillover cost or benefit to a third party; a negative externality means the market over-produces

Public goods (non-rival, non-excludable) are under-provided; the free-rider problem means firms won't supply them.

Government tools: indirect taxes, subsidies, price controls, tradable permits, regulation – each with side effects.

Government failure: intervention creates a worse outcome (e.g. black markets from a price ceiling).

The macroeconomy

$$AD = C + I + G + (X - M)$$

real GDP growth = $\% \Delta \text{GDP} - \text{inflation}$ nominal adjusted for prices

Inflation: a sustained rise in the general price level; demand-pull (too much AD) or cost-push (rising costs)

$$\text{multiplier} = \frac{1}{1 - MPC}$$

Fiscal policy = government spending and taxation; monetary policy = interest rates and the money supply.

Balance of payments: record of trade and money flows; the current account covers exports and imports of goods and services