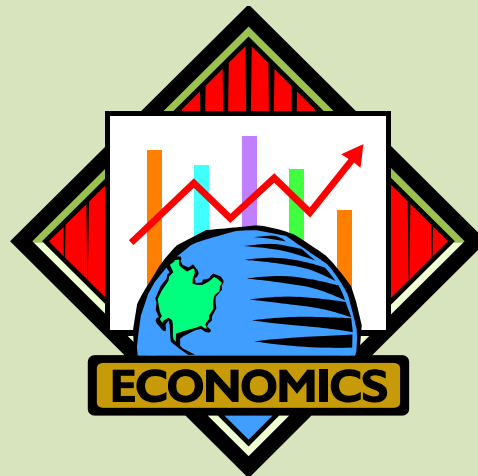
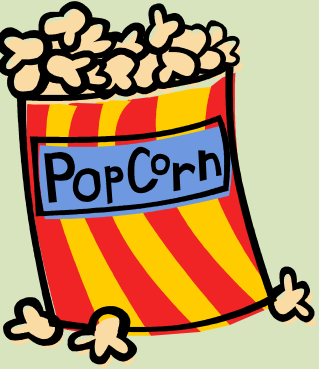




# Unit 2: What is Microeconomics?

By Ms. Lane





# Microeconomics



Take notes about microeconomics on your Microeconomics worksheet.

The branch of Economics that studies the market behavior of individual consumers and firms to understand the decision-making process of firms and households

Example: If your favorite movie star is in the sequel of your favorite movie (which you have been dying to see), would you go to see it on the day it first appears in the movie theater? What if the price of one movie ticket was \$50? \$40? \$30? \$20? \$10?

This is an example of microeconomic study.

# How does the economy work?



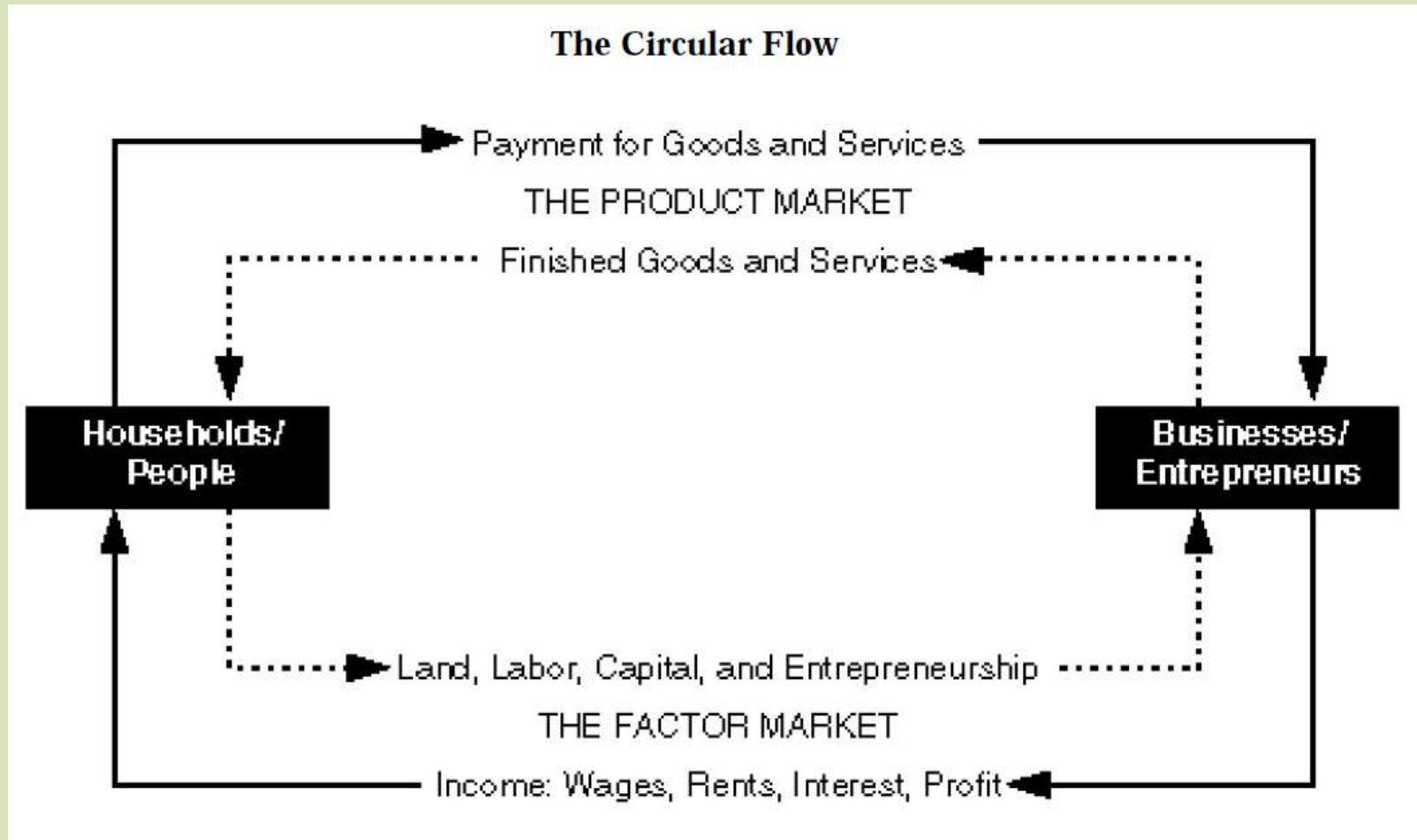
- To buy goods and services from entrepreneurs, people in households must earn income
- People receive income (money going into their pockets) from many different sources.
  - Wages/Salary
  - Interest
  - Profit
  - Rent
  - Student Income Demonstration



# Role Play: Act I

Employee Name	Paid by Salary or Wage	Job Title	Salary	Wage per hour	Hours per week	Total Earnings
Maria Sotelo	Wage	Stylist	N/A	\$11.00	35	\$
Alberto Otero	Wage	Stylist	N/A	\$11.00	40	\$
Liliana Martinez	Salary	Assistant Manager	\$600 salary	N/A	N/A	\$

# The Circular Flow of the Economy



# Business transactions in the Circular Flow of the Economy

- For each transaction, we will identify where it fits in the circular flow of the economy
  1. Roberto Reyes designs backpacks.
  2. Roberto gets a few friends to invest in his new startup business: Backpacks R Us.
  3. Backpacks R Us buys a factory on 35<sup>th</sup> Avenue.
  4. An employee works for 8 hours at Backpacks R Us making backpacks.
  5. Target pays Backpacks R Us for backpacks that are supplied to Target.
  6. Target sells 30 new backpacks the next day the store is open.
  7. A customer pays for a backpack at Target.

# Circular Flow Simulation

- You will become a participating member of the American Economy by demonstrating the circular flow model.
  - Once you receive your activity card, answer the questions on the circular flow simulation worksheet
  - Get ready to present your circular flow activity
  - Take notes on your classmates circular flow activities

# Circular Flow Comprehension Quiz

- To take the quiz go to:  
<https://www.studyisland.com/web/index/>







# What will consumers buy?

By Ms. Lane

# What is Demand?



- Use your Cornell Notes document to learn about demand in economics.
- Demand is the desire to own something and the ability to pay for it.
  - Questions
    - What is the demand for escargot in this class?
    - What is the demand for smart phones in this class?
    - What is the demand for spinach in this class?
  - Watch: Beloved brands face challenge: Adapt or die out
  - [http://www.cbsnews.com/8301-505143\\_162-57550880/twinkies-maker-hostess-going-out-of-business/](http://www.cbsnews.com/8301-505143_162-57550880/twinkies-maker-hostess-going-out-of-business/)
    - Answer the following:
      - Over time, the demand for twinkies has changed. Brainstorm with your elbow partner 5 reasons why twinkies are not as popular as they once were.
      - Be ready to discuss your ideas
      - Use entrepreneurial innovation to create a new best seller





# How many will you buy?

- As we study why consumers buy twinkies or other goods and services, we learn about human behavior. You are all consumers who use goods and services so we will study ourselves.

- Beverages

- Soda
- milk
- Fruit Juice
- Iced Tea



# Decisions, decisions



- You have \$3.00 to spend
- You can buy one 12-ounce container of a beverage.
- The price of the beverage is \$1.00.
- Stand next to the sign of the beverage you want to buy.
- Hold up the amount of fingers that indicate how many containers you would buy.

# Desire to own something and the ability to pay

- The winning beverage is \_\_\_\_\_.
- \_\_\_\_\_ number of people wanted the most popular beverage at \$1.00
- We are going to develop a demand schedule for the winning beverage.
- The price of our most popular beverage is now \$1.50. The other beverages are still \$1.00.
- You may stay with the beverage you chose or move to another.
- \_\_\_\_\_ number of people wanted the most popular beverage at \$1.50



# Demand at different prices

- The price of our most popular beverage is now \$2.00. The other beverages are still \$1.00.
- You may stay with the beverage you chose or move to another.
- \_\_\_\_\_ number of people wanted the most popular beverage at \$2.00
- The price of our most popular beverage is now \$2.50. The other beverages are still \$1.00.
- You may stay with the beverage you chose or move to another.
- \_\_\_\_\_ number of people wanted the most popular beverage at \$2.50
- **Return to your seats!**



# What does the demand schedule mean?



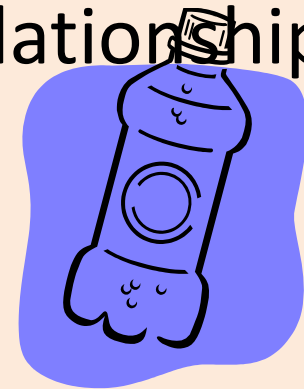
- What have you economists learned from the demand schedule?
  - Look at the schedule
  - Think and come to a conclusion with your elbow partner
  - Be ready to discuss with the class



# The Law of Demand

Extremely important...include in Cornell Notes!

1. When a good's price is lower, consumers will buy more of the good.
2. When a good's price is higher, consumers will buy less of the good.
3. There is an inverse (opposite) relationship between demand and price.





# Demand Schedule

- A demand schedule is a table that shows the quantity demanded of a good at various different prices.
- Activity 1: Demand for \_\_\_\_\_
  - Copy the quantity demanded at each price onto the schedule
  - Watch and then create the demand curve individually
- Closure
  - Answer the questions about our demand graph (in your Cornell Notes) and be prepared to report

# You are an Economist



- Let's look at a demand schedule for another good
- I am going to demonstrate how to create a demand schedule and graph for portable DVD players.
  - **What is the quantity demanded at the lowest price?**
  - **What is the quantity demanded at the middle price?**
  - **What is the quantity demanded at the highest price?**
  - **As the price of this good increases, what happens to the quantity demanded?**
  - **As the price of this good decreases, what happens to the quantity demanded?**
  - **How does the demand curve slope?**
  - **What type of relationship exists between quantity demanded and price?**
    - **Pick one**
      - **Direct**
      - **Inverse**

# Graphing Demand of Individual Goods

- **Now you will be assigned a good and a demand schedule.**
- Graph the demand for the good using demand schedule number 1.
- **Answer the following questions**
  - What is the quantity demanded at the lowest price?
  - **What is the quantity demanded at the middle price?**
  - What is the quantity demanded at the highest price?
  - **As the price of this good increases, what happens to the quantity demanded?**
  - As the price of this good decreases, what happens to the quantity demanded?
  - **How does the demand curve slope?**
  - What type of relationship exists between quantity demanded and price?
    - Pick one
      - Direct
      - Inverse

# Law of Demand-income effect

- Demonstration via art
- What will happen to the quantity demanded of a good if prices rise on all sorts of goods
- Consumers have less income to spend
- Read page 80 in your economics book to explain this effect.



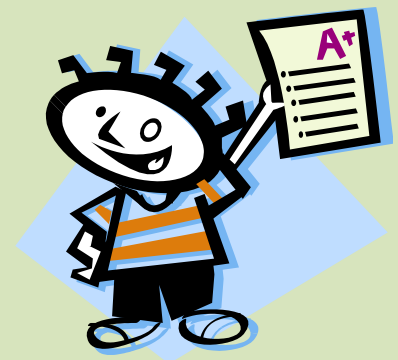
# Law of Demand -substitution

- What will happen to the quantity demanded of a good if there is a change in price of a related good?
- Consumers change their spending patterns as a result of the substitution effect. Read page 80 in your economics book to explain these effects.



# Law of Demand Comprehension Quiz

- Quizlet: The Law of Demand  
Learn, Scatter, Test
- Test your knowledge: Take  
the comprehension quiz at:  
[https://www.studyisland.com  
/web/index/](https://www.studyisland.com/web/index/)



# What is a demand shift?



# Analyzing Demand



- For the demand graph for your assigned good,
  - What does quantity demanded mean?
  - When you determined the demand for the good, what did we change or vary?
  - Did we change the price of other similar goods?
  - Did we change the amount of people in the marketplace?
  - Did we change the income of people in the market?
  - Did we change the consumer taste or preferences for goods in the market?
- We only looked at changes in price which caused the quantity demanded to change
- There are other factors that can make the demand graph shift or change.
- Now we will look at other factors that make the demand curve shift for DVD players





# Demand shifters-consumer taste for DVDs

- Consumers prefer Netflix and movie downloads to watching films on DVD players.
- Predict what will happen to the demand for DVD players.
- Copy the new demand schedule (label #2)
- Graph it

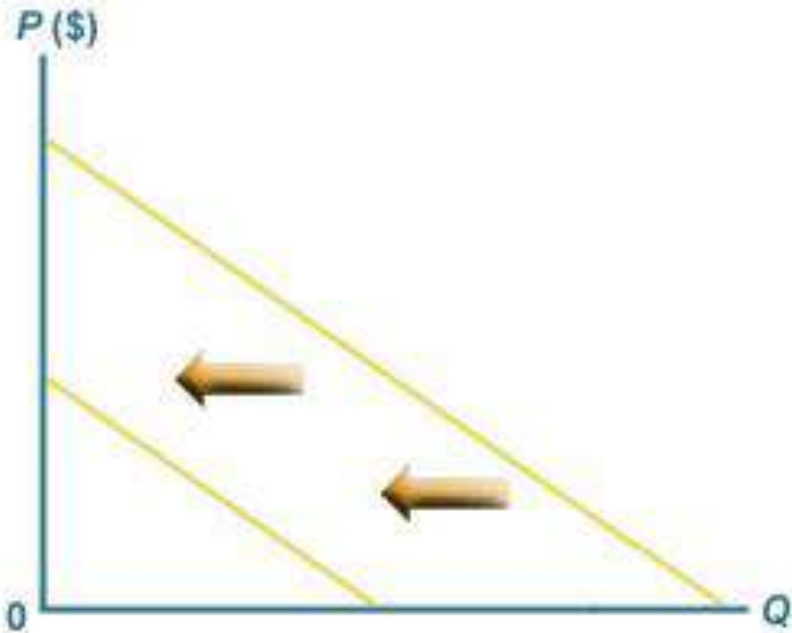


# Shifting Demand

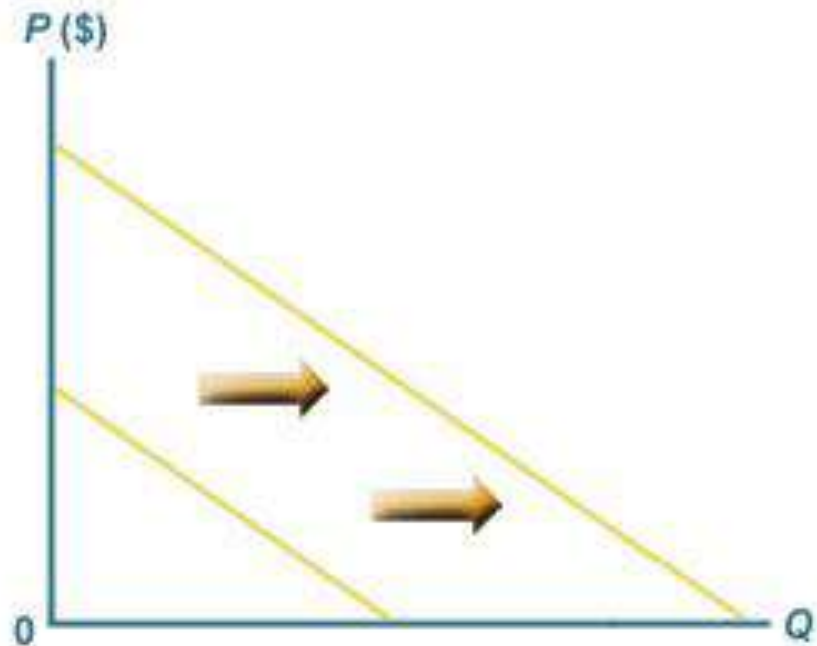
Which graph shows the shift in demand for portable DVD

Demand schedule #2	
Portable DVD player	
Demand Schedule	
price	quantity demanded
\$55.00	24
\$80.00	20
\$100.00	15
\$130.00	10
\$150.00	5
\$190.00	0

Decrease in Demand



Increase in Demand



# Demand shifters-consumer taste

- These goods are not demanded much anymore. Why not?



- Consumers tastes have changed. They prefer newer, more efficient goods.
- What happens to the demand of these older goods?



# Demand shifters-size of market

- What will happen to demand if the number of people in the market increases?
- What if the number of people in the market decreases?
- Demonstration



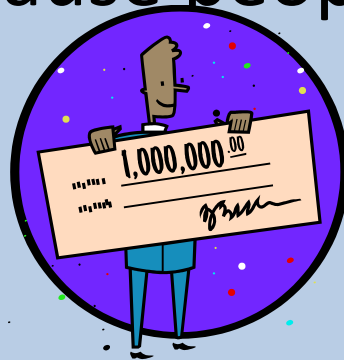
# Demand shifters-size of DVD player market

- All schools in the USA provide textbook copies in DVD format
- Predict what will happen to the demand for DVD players
- Graph it



# Demand shifters-change in consumer income

- If consumer income increases, demand will increase because people have more income to spend



- If consumer income decreases, demand will decrease because people have less income to spend

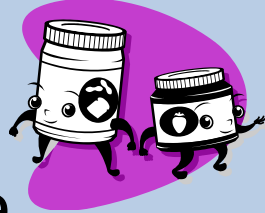


# Demand shifters-change in consumer income in DVD player market

- Taxes increase and people have less income to spend
- Predict what will happen to the demand for DVD players
- Graph it



# Demand shifters: Change in price of related goods



- A change in price of one good can change the demand of another good.
  - One type of related goods are Complements.  
Complements are purchased together.
    - An example of complements are peanut butter and jelly
      - A decrease in the price of peanut butter, will increase demand for jelly
  - Another type of related goods are substitutes  
Substitutes are interchangeable. One good is bought in the place of the other
    - An example of a substitute for Coca-cola is Pepsi



# Substitutes and complements

- <http://www.youtube.com/watch?v=G4YID0Cdsgg>
- As you watch the video, make a list of the substitutes and complements that are demonstrated.

Are they complements or substitutes?	Good #1	Good #2



# Demand shifters-change in price of related goods-DVD players

- DVDs are no longer made...movie watchers use movie downloads
- Predict what will happen to the demand for DVD players
- Graph it



# Analyzing Demand Shifters

- You will be analyzing how demand can shift for the individual good you made a demand graph
- Take out your demand graph for the item you were assigned
- Read the situation
- Identify it
- Make a second demand graph and label it D2.

# Thumbs up = Demand rises

# Thumbs down = Demand falls

- Metro Tech High School enrolls 700 more students to its junior and senior classes
  - What happens to the demand for Arizona Iced Tea
- A new medicine is developed that alleviates (gets rid of) headaches in 5 minutes
  - What happens to the demand for aspirin
- Arizona passes a law that raises the minimum wage per hour to \$10.50.
  - What happens to demand for clothes
- The price of hot dogs increases
  - What happens to demand for hot dog buns
- The price of ice cream decreases
  - What happens to demand for frozen yogurt

# What is elasticity of demand?

- Elasticity of demand is a measure of how sensitive goods are to changes in price.
- There are some goods that consumers purchase even if the price rises a great deal.
- Inelastic goods- goods that are not sensitive to changes in price
- Elastic goods- goods that are very sensitive to changes in price
- There are factors that make goods either elastic or inelastic
  - The factors are:
    - Available substitutes
    - Things consumers need versus want
    - Relative importance to you
  - With a partner, review the table of consumer goods
    - Discuss which goods are elastic and which are inelastic

# Elastic or inelastic goods?

Good	Substitute available	Necessity or luxury	Would a 10% increase in price effect a consumer's budget?	Elastic or Inelastic demand?
Dijon mustard				
Playoff tickets for Phoenix Suns				
salt				
pudding				
diamonds				
lobster				
Coca-cola				
gasoline				
coffee				
Shoelaces				
milk				
candy				
diapers				

# Demand Shifters Quiz

- Test your knowledge: Take the comprehension quiz at:

<https://www.studyisland.com/web/index/>