

# Unit II



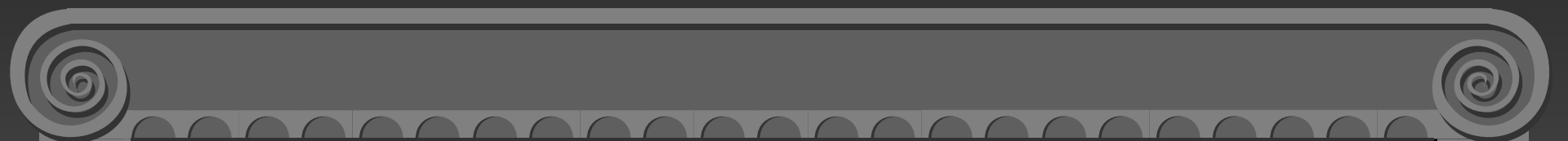
Microeconomic Concepts

SSEMI1-SSEMI4

# **SSEMI1: Goods, Services, and Money**

**The student will describe how households, businesses, and governments are interdependent and interact through flows of goods, services, and money.**

a. Illustrate by means of a circular flow diagram, the Product market; the Resource market; the real flow of goods and services between and among businesses, households, and government; and the flow of money.

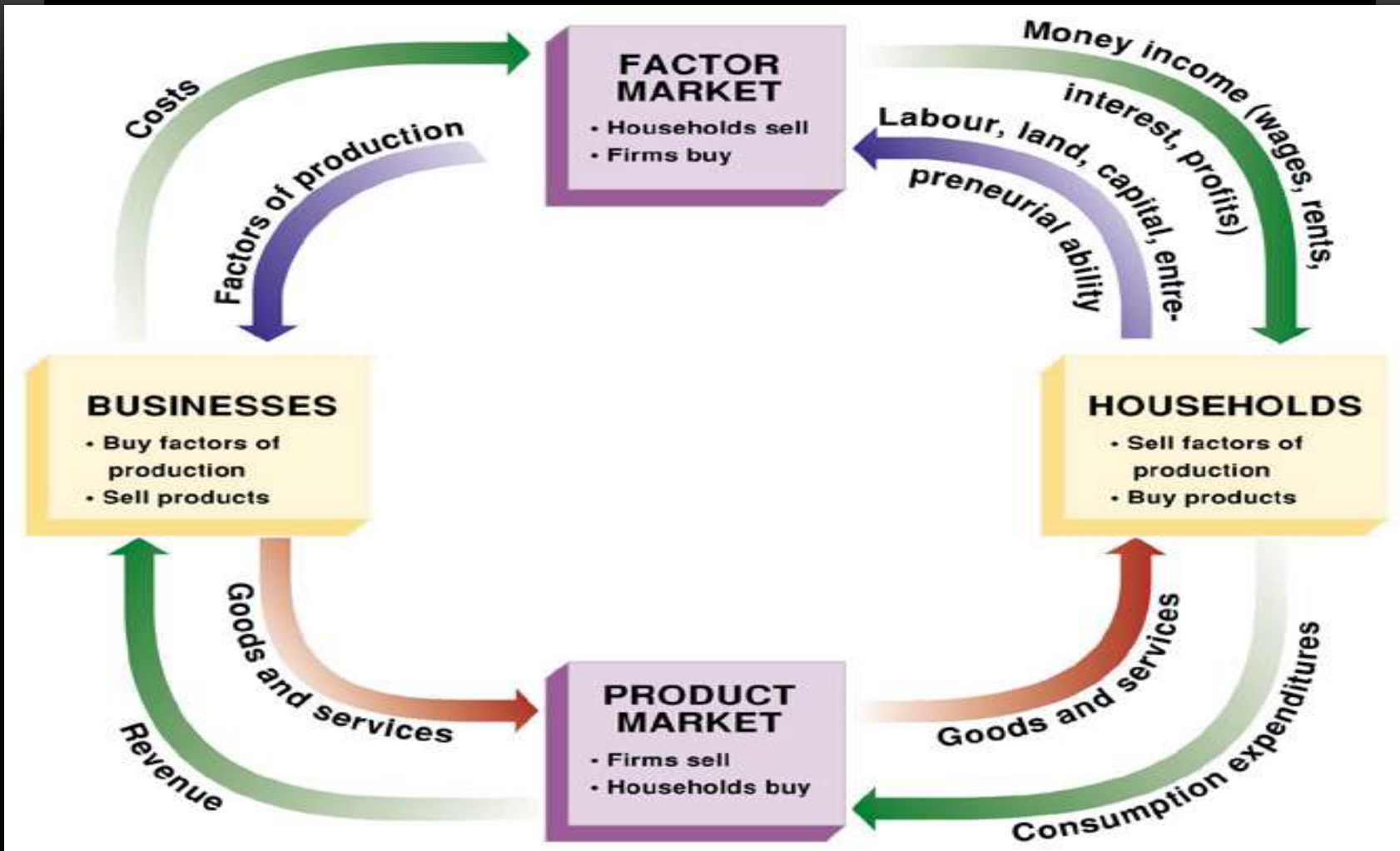


b. Explain the role of money and how it facilitates exchange.

Circular flow model movie

[http://www.fgn.unisg.ch/eurmacro/tutor/circularflow\\_movie.html](http://www.fgn.unisg.ch/eurmacro/tutor/circularflow_movie.html)

# Circular Flow Model



# Two Basic Units of Microecon!





Businesses

Produce Goods and  
Services



# Households

Groups of people, such as families, that live together and purchase many goods to be shared by everyone in the group. ...ex. Furniture, appliances, and cooking equipment.

# Government

Provides necessary goods and services that might otherwise not be provided by what the market demands

# National Defense

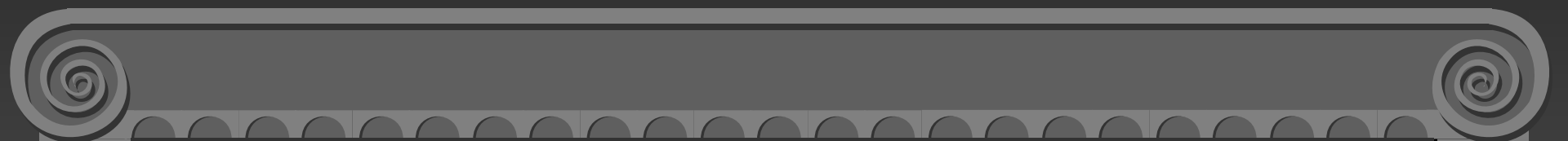


# Maintaining Public Parks



# Monuments





Both businesses and households pay taxes to benefit society.

# Economics Interdependent

Households, businesses, and governments depend on each other in order for the economy to function smoothly

Households: are Labors &  
Consumers

Businesses: are Producers and  
Consumers

Government: Produces, Consumes,  
and provides structure, regulations,  
law, and order.



# “Circular Flow of Economic Activity”

The economic flow of MONEY between households, businesses, and governments is the *Circular Flow of Econ Activity*.

# Factor/ Resource Market



Includes all exchanges that businesses must make in order to produce things, because they involve the four factors of production.

Land\*\*\*\*Rent (rent to landlords)

Labor\*\*\*\*Wages (Wages to workers)

Entrepreneurship & Capital\*\*\*Interest on a loan (people who lend them money to operate)

Is where producers invest in new capital to increase production.

Employers find the labor necessary to run their businesses

# Product Market



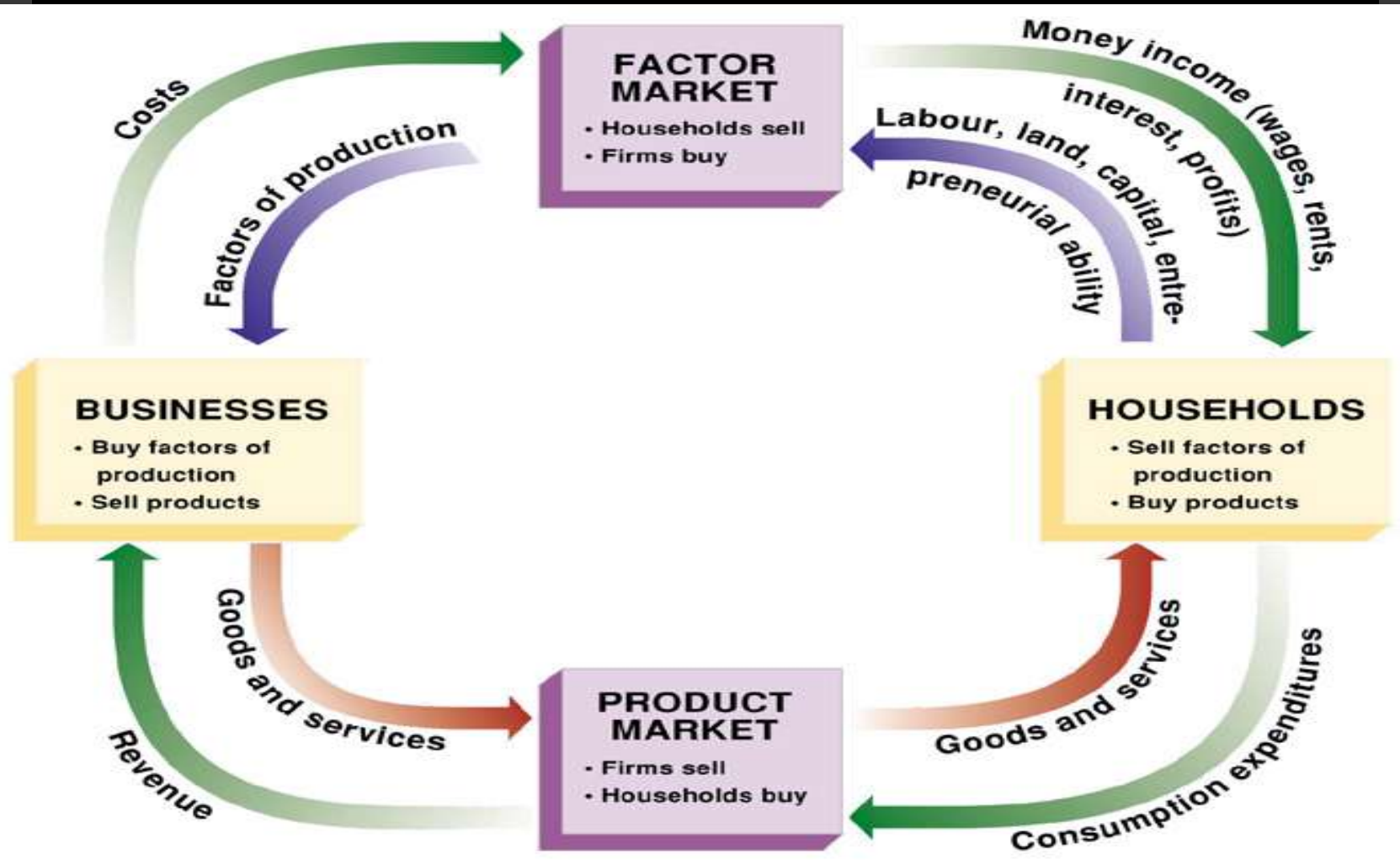


Households spend their money  
in the product market

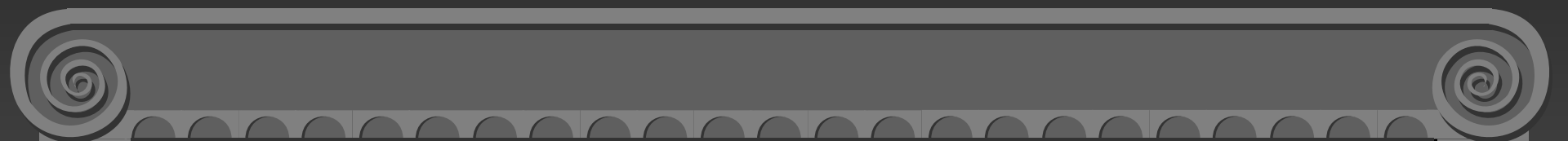
Goods that are sold to  
consumers for final  
consumption

Households buying things that businesses have made creates a flow back to businesses as profits...Businesses use the profit to buy more resources in the factor market, so they can make more products for households to buy!

# Circular Flow Model







Where households are the  
demanders in the product  
market and suppliers in  
the factor market!

b. Explain the Role of Money and  
how it facilitates exchange



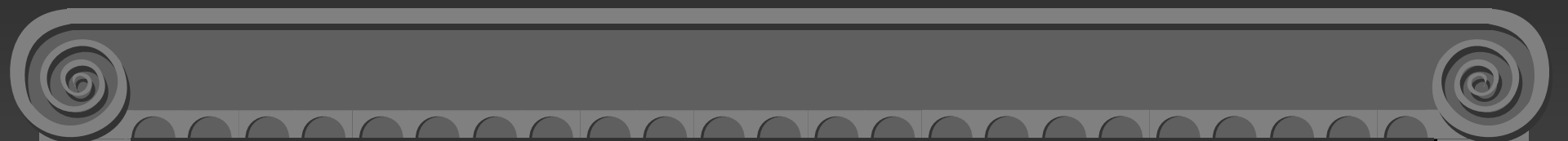
# Bartering to Money

Money as a *Medium of exchange*: Money can be anything that a buyers and sellers in an economy are willing to accept for payment.

*standard of value*: Money allows US to compare the econ. value of different goods and services

## Groupwork: Illustrate A Circular Flow Diagram

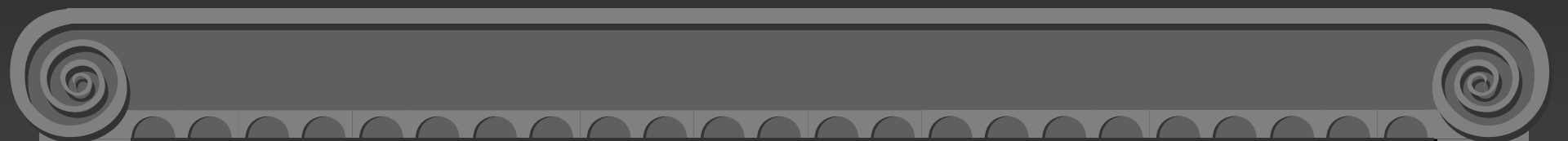
- Pick a product that **YOUR** group likes and show how it goes through the **Circular Flow Diagram**



2. Outline all of the flows of exchange and each element of the diagram

3. Include Product Market,  
Resource Market,  
households, and  
Businesses and how they  
react.

4. Explain the resources that are needed to make the product and how the household will **PAY** for the Product and **USE** the **PRODUCT!!**



5. Put it in the circular flow model with all the appropriate arrows labeled.



## SSEMI 2: Supply and Demand

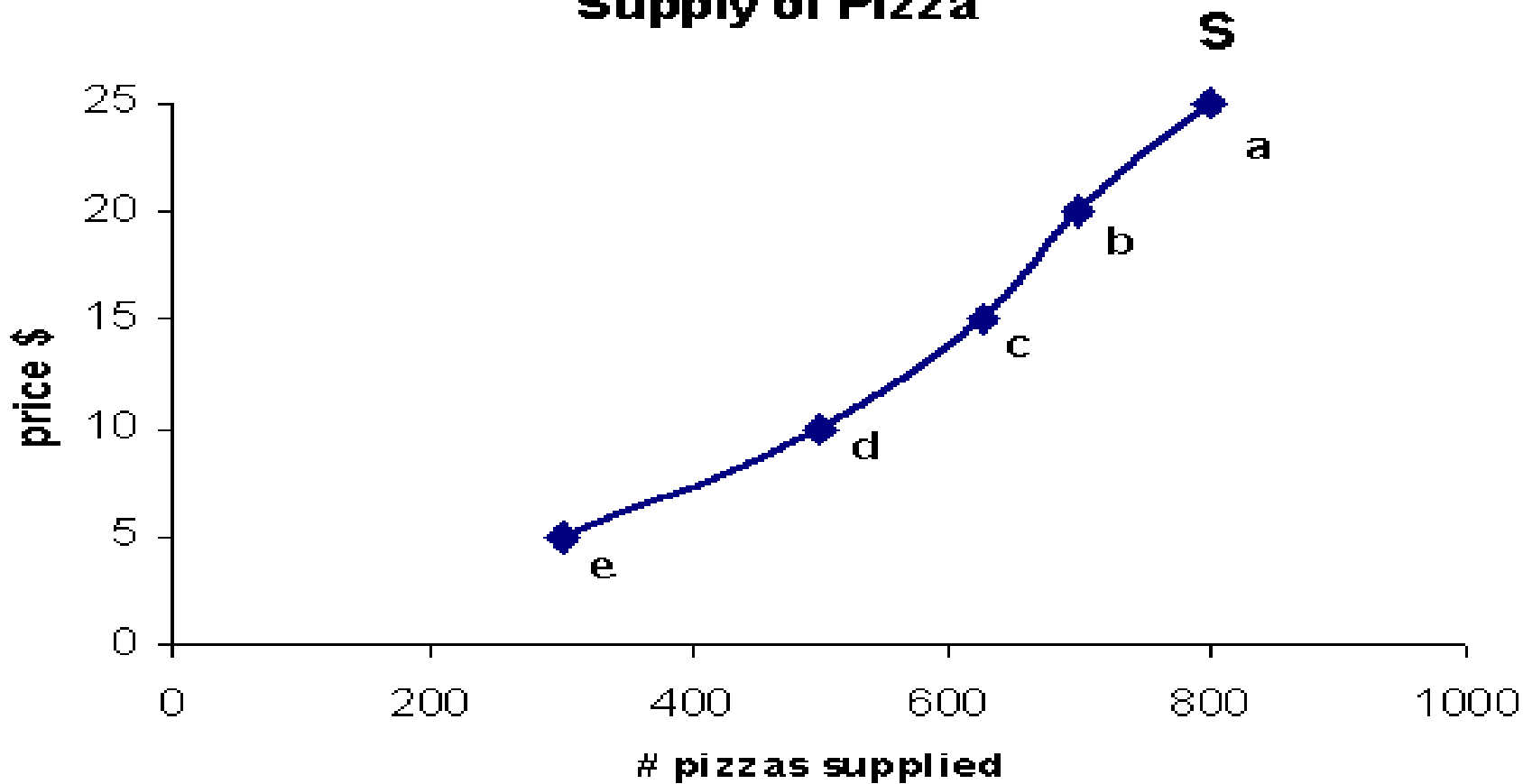
**The student will explain how the Law of Demand, the Law of Supply, prices, and profits work to determine production and distribution in a market economy.**

SSEMI2: a

Define the Law of Supply  
and Law of Demand

# Law of Supply

**Supply of Pizza**



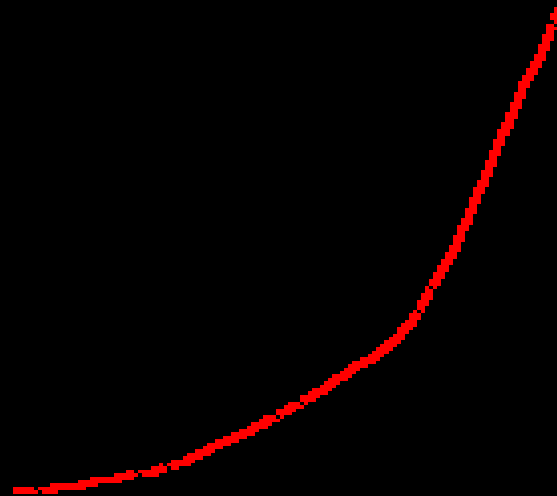
# Supply

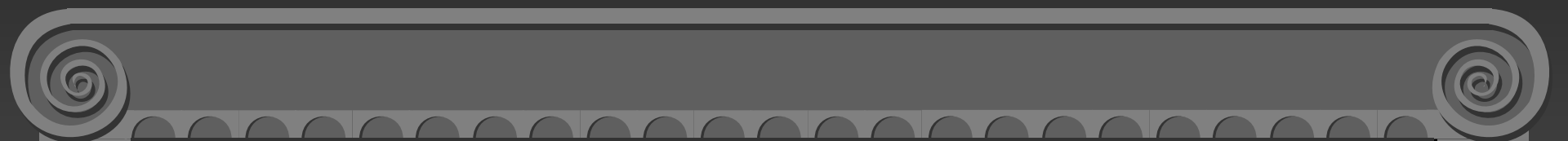
Supply is the total quantity of a product that producers are willing to make and sell at a certain price.

## Law of Supply

A company needs to charge a price high enough to earn a profit. The higher the price a company can charge, the more it is willing to supply.

# Supply Curve



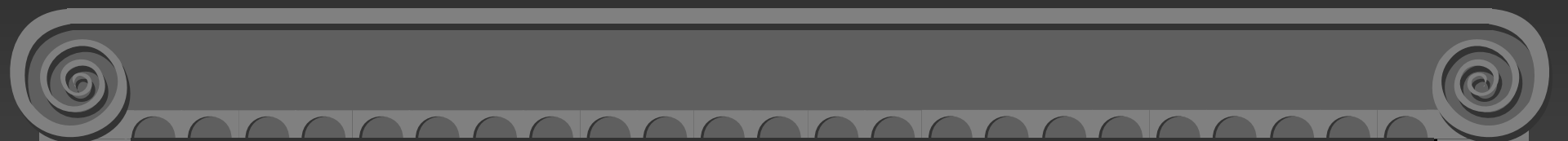


Demonstrates the  
relationship between price  
and supply.

# Demand







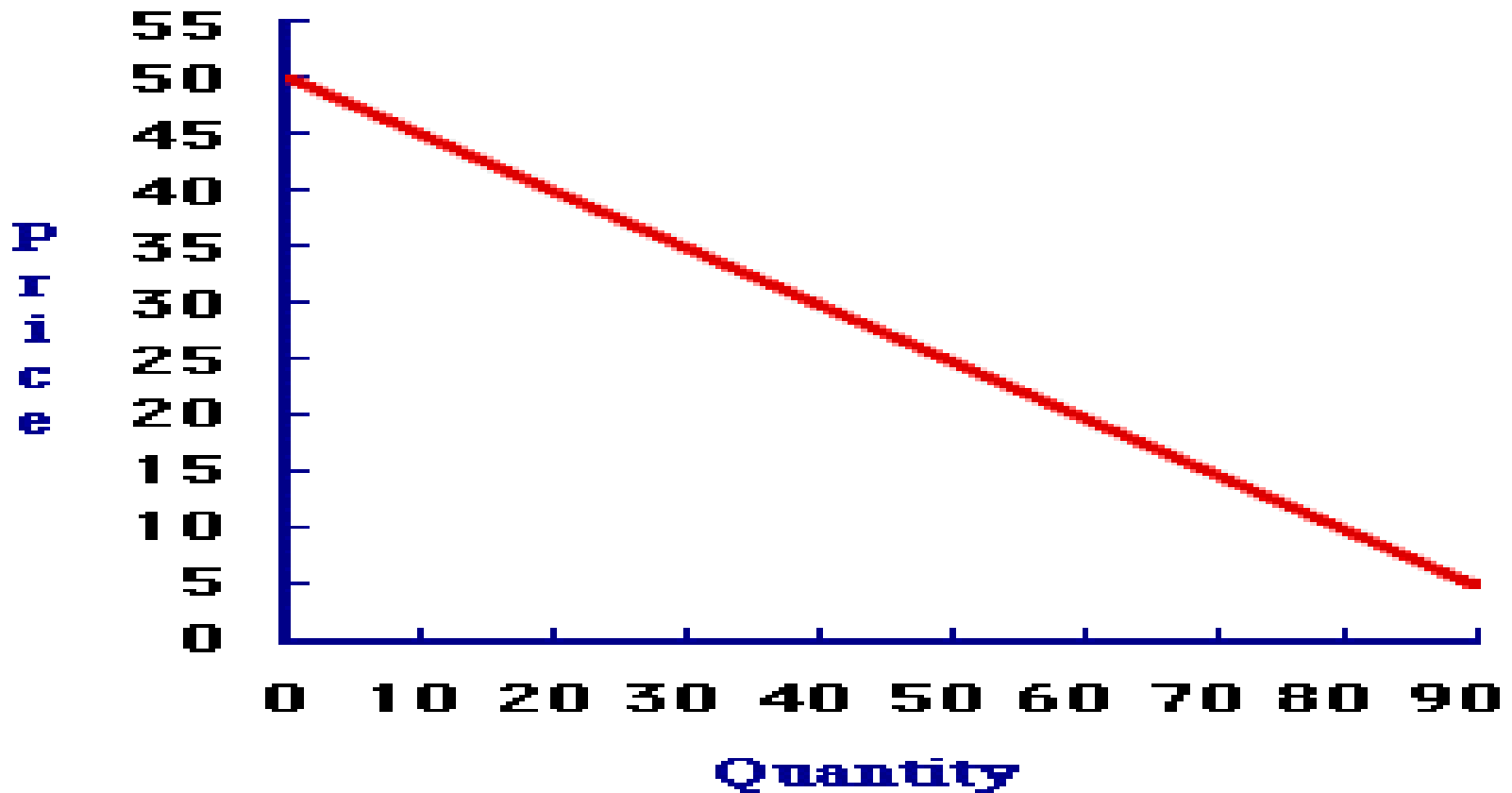
The quantity of a product that consumers are willing and able to buy at a certain price

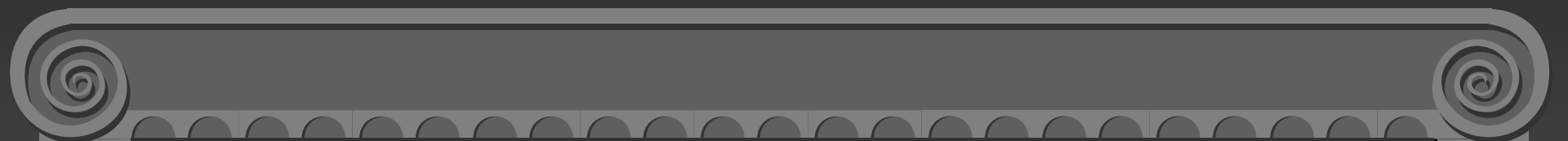
# Law of Demand

The higher the price of an item the lower the demand for it will be.

As prices rise, quantity demanded decreases.

# Demand Curve





Shows the relationship  
between price and  
demand.

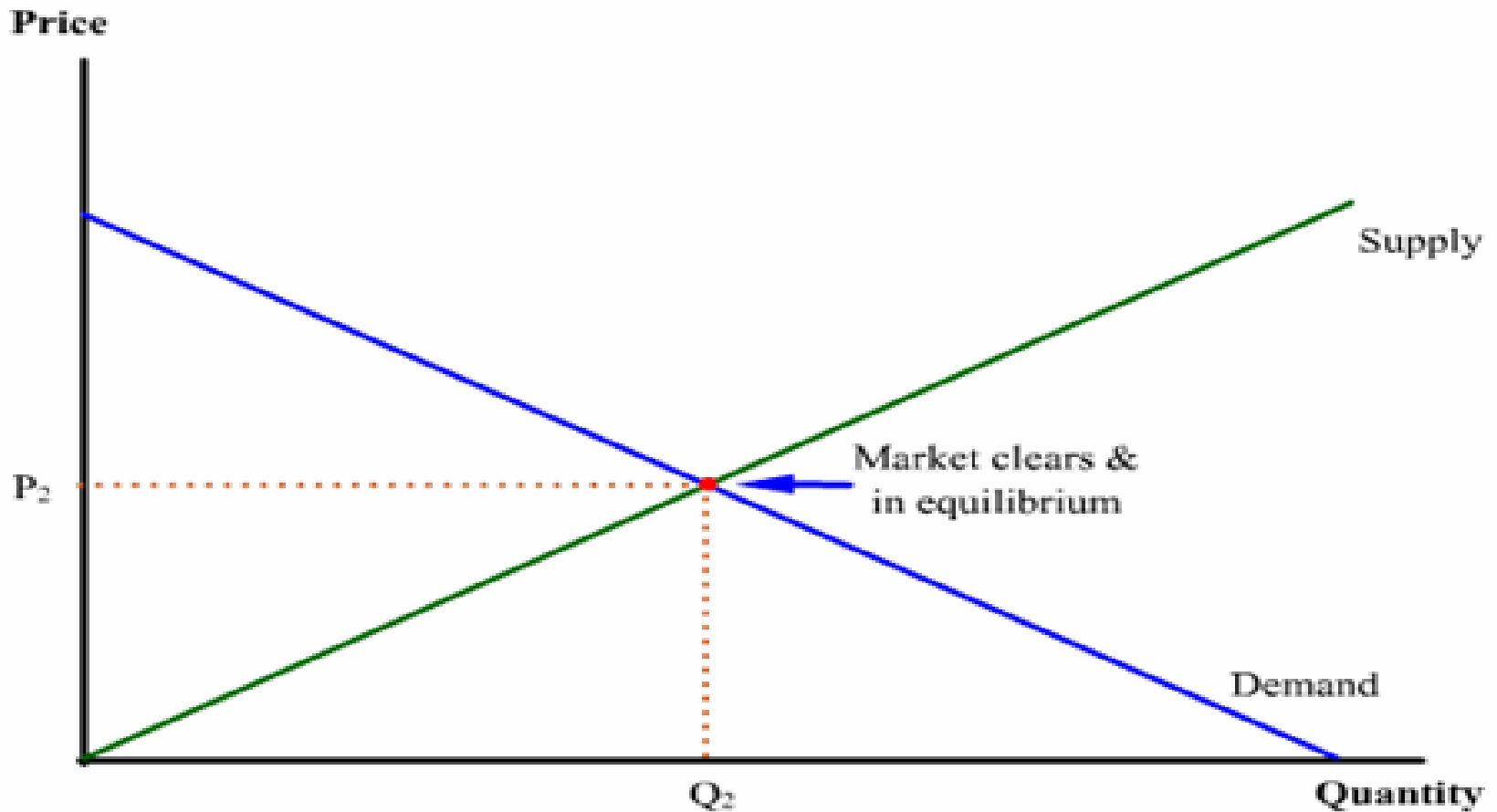
## Law of Supply and Demand

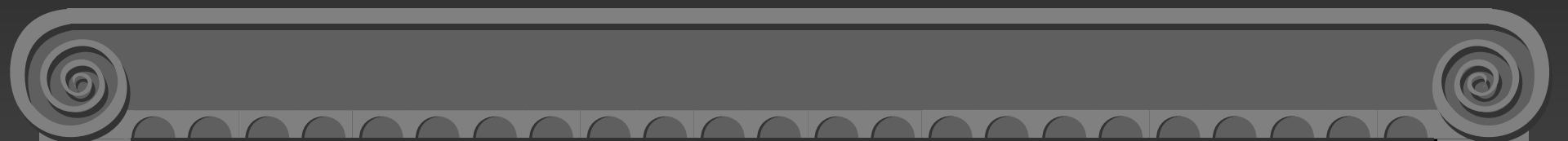
States that supply (What is produced) will be determined by what is demanded (what will consumers buy)

SSEMI2: b

Describe the role of  
Buyers and Sellers in  
determining Market  
Clearing Price

# Clearing Market Price

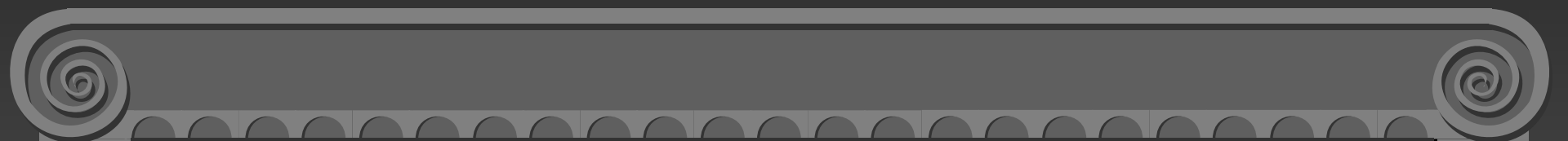




The Price at which producers are willing to make the same amount of a product that consumers demand

When buyers and sellers interact in a market...the Market clearing price is determined.





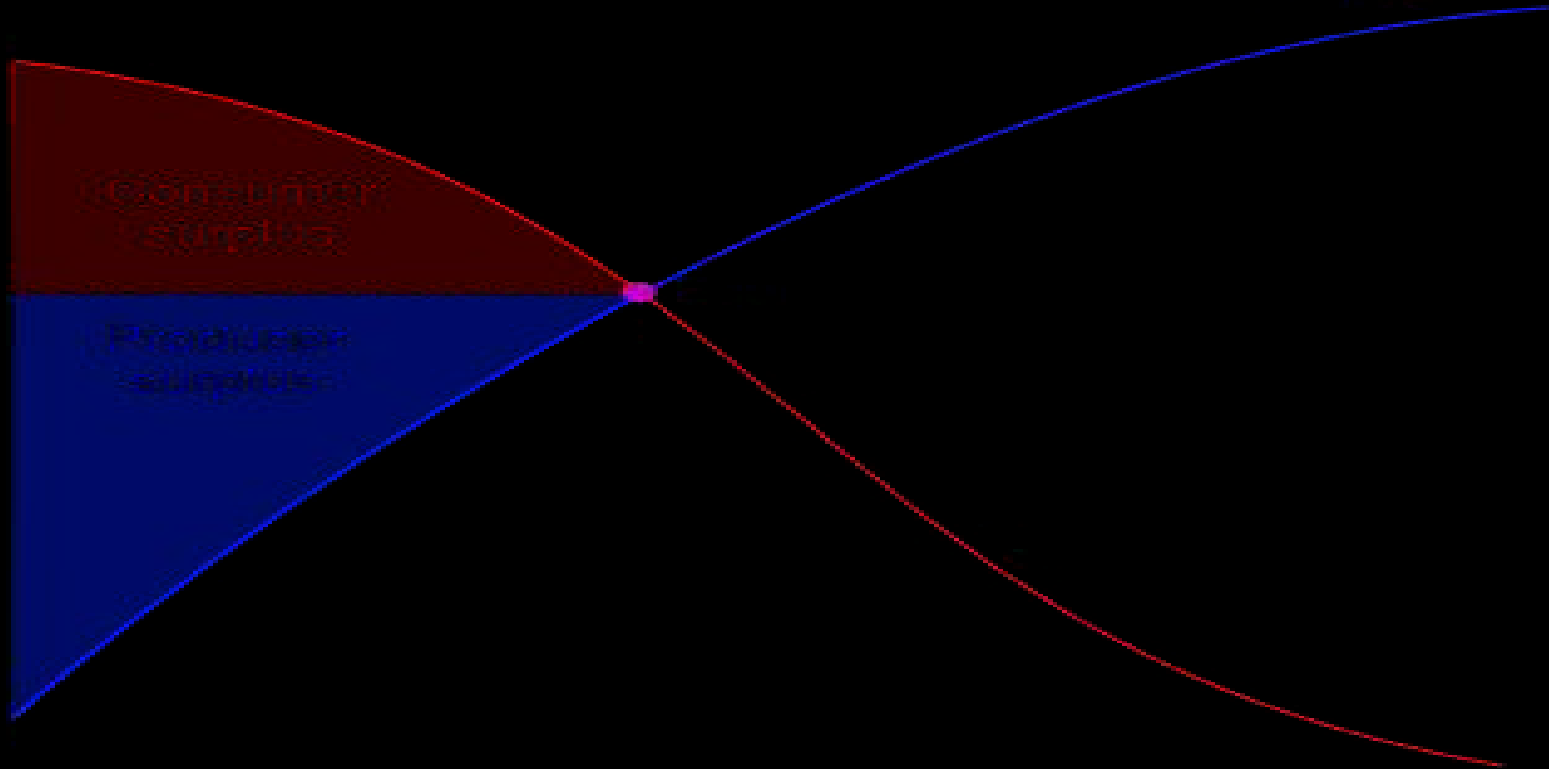
When companies develop new products, an equilibrium price and quantity will eventually be determined by the interaction of buyers and sellers.

## SSEMI2: c

c. Illustrate on a graph how supply and demand determine equilibrium price and quantity.

# Equilibrium Price

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## Equilibrium Price

Is similar to Market clearing Price in that the Equilibrium price is placed on a chart that combines the supply curve and the demand curve on a graph.

SSEMI2: d

Explain how prices serve  
as incentives in a Market  
Economy.

Lowering prices are an incentive for people to purchase more goods.



## **SSEMI3: Supply and Demand**

**The student will explain  
how markets, prices,  
and competition  
influence economic  
behavior.**

## SSEMI3: a

Identify and illustrate on a graph factors that cause changes in market supply and demand.



# Factors that cause Changes

A decrease in the price of  
resources

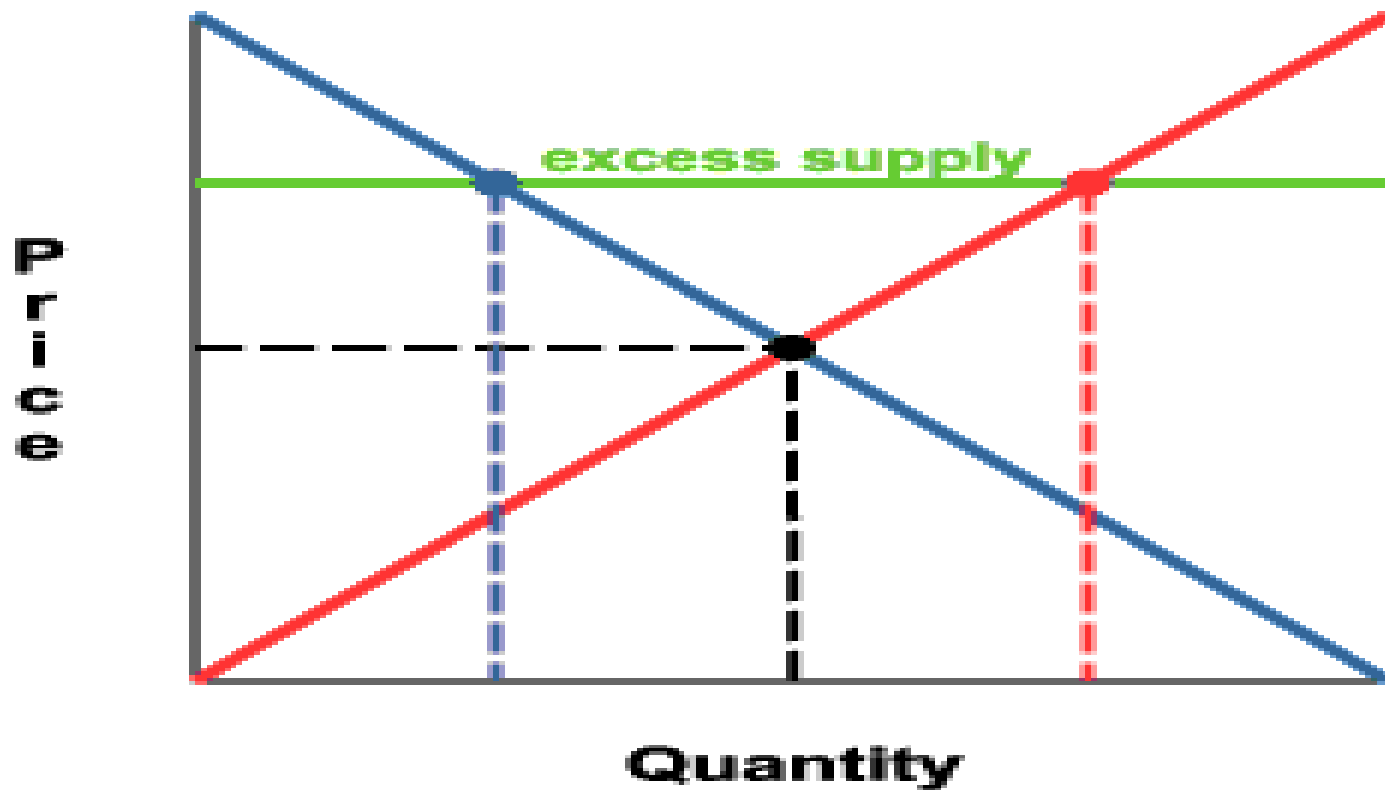
If the price of an item increases,  
demand for its substitutes  
increases.

## SSEMI 3: b

b. Explain and illustrate on a graph how price floors create surpluses and price ceilings create shortages.

# Price Floors

## Price Floor



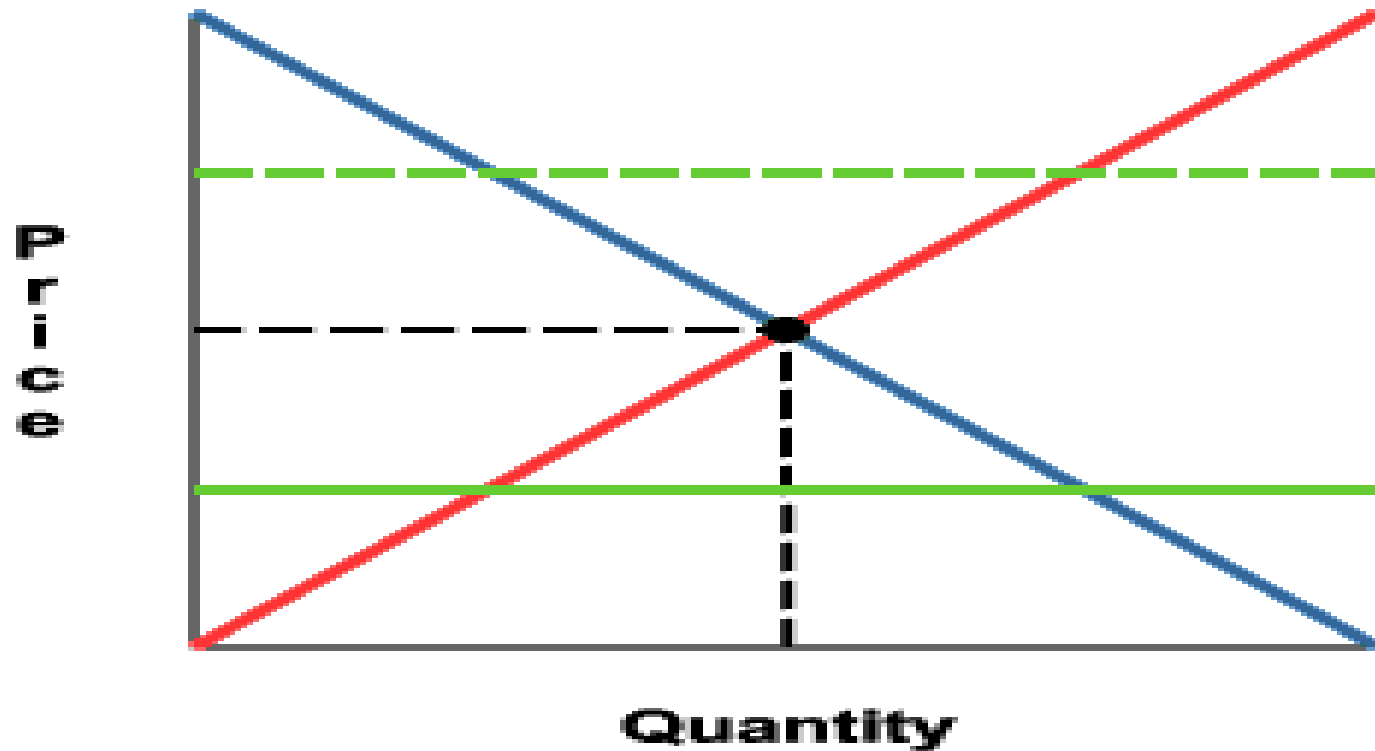
Is the minimum allowable price...Price Floors lead to surpluses...Surpluses occur when supply exceeds demand...MILK is a prime example!

Surpluses are noticed on a graph

When the demand is below  
the equilibrium price...a  
Surplus occurs.

# Price Ceiling

## Price Ceiling





The Highest price that can  
be charged for a particular  
good or service.

# Shortage

A price below equilibrium results in a shortage of goods. Price Ceiling can lead to a shortage, because the demand maybe high but the supply low.



SSEMI: c

Define price elasticity of demand and supply.

# Price Elasticity

The Sensitivity of price to supply and demand and its tendency to fluctuate as supply and demand change is referred to as Price Elasticity.



Price is not set

It changes depending on supply and demand.

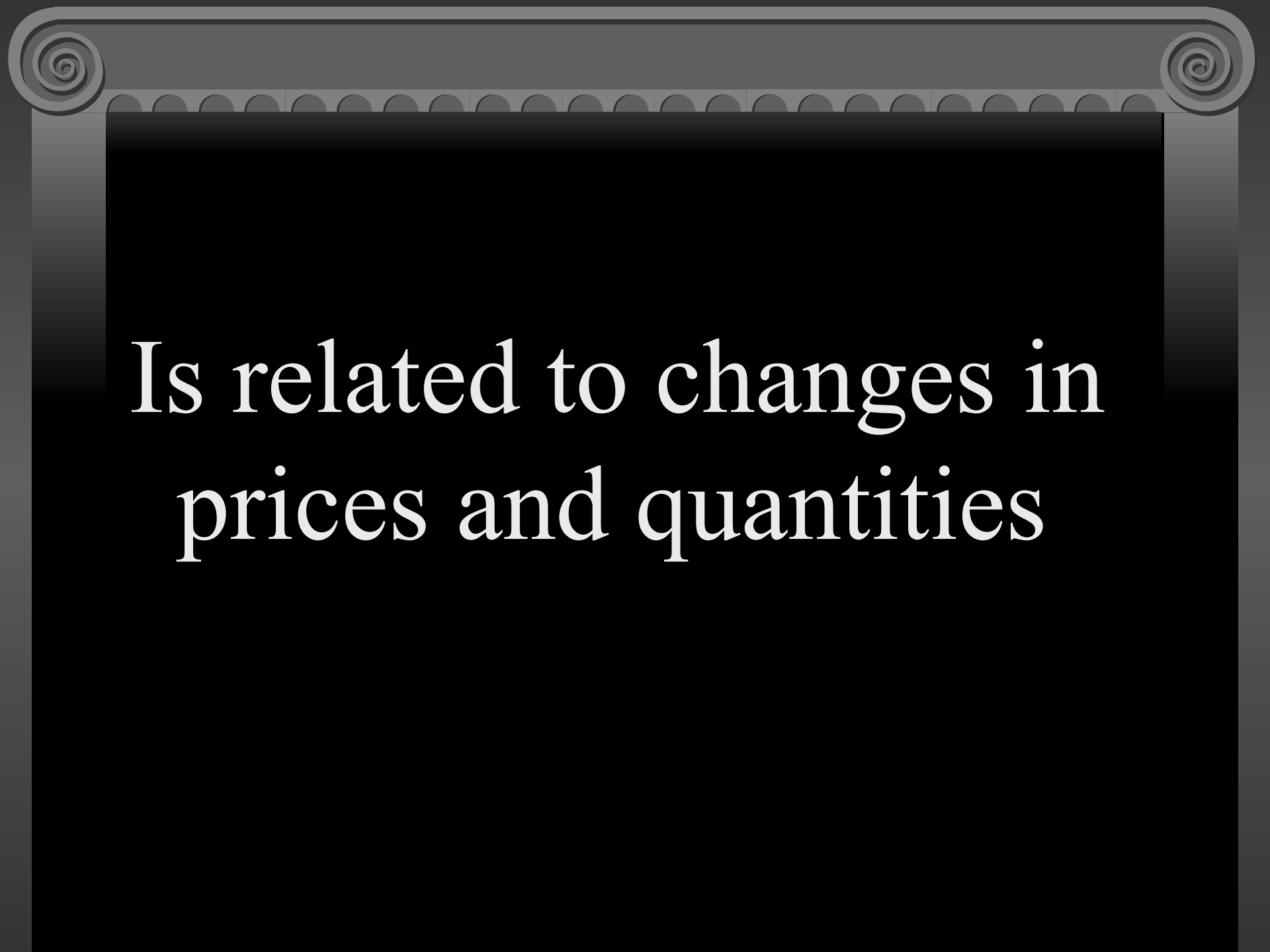
The more a change in price affects supply and/or demand, the greater a product's price elasticity.

## Demand Inelastic

Within limits, people will buy about the same amount of a product no matter what the price especially if there is no substitute... **example Bread, Oil, Milk, and Eggs.**

# Demand Elasticity

Depends on the taste of individuals...items that are luxury on the other hand are sensitive to changes in price...think about houses in Henry County.



Is related to changes in  
prices and quantities



SSEMI4

# Business and Market Structures

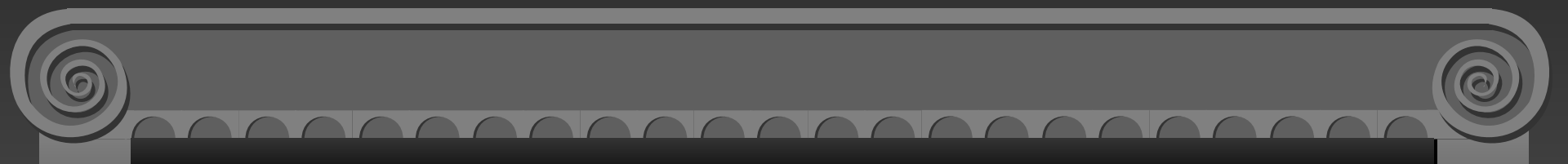
## **SSEMI4**

**The student will explain the organization and role of business and analyze the four types of market structures in the U.S. economy.**



## SSEMI4: a

- a. Compare and contrast three forms of business organization—sole proprietorship, partnership, and corporation.



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Partnership Advantaged

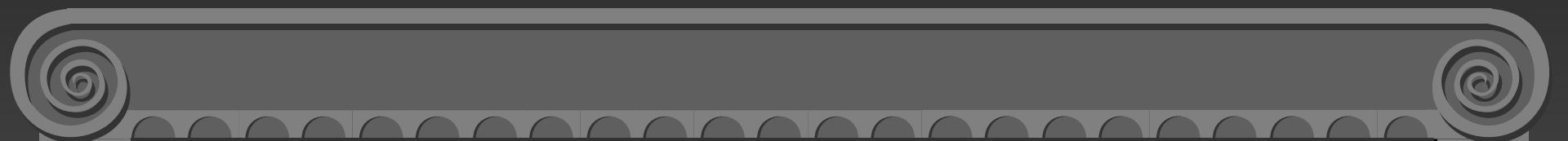
Specialization of the  
partners

Disadvantage of incorporation

Double Taxation

SSEMI4: b.

Explain the role of  
profit as an incentive  
for entrepreneurs.



Profit is the incentive for entrepreneurs to take risk because that is why they created their business, to make money.

If they didn't wish to make money, why would they create a business?

If entrepreneurs don't make their consumers happy, the consumers will not buy their product and they will lose money.

As long as entrepreneurs make a product and the consumer is willing to buy it, their goal of making money is reached.

## SSEMI4: c

Identify the basic characteristics of monopoly, oligopoly, monopolistic competition, and pure competition.



# Monopoly

- market structure characterized by a single producer; form of imperfect competition

# Oligopoly

- market structure in which a few large sellers dominate and have the ability to affect the prices in the industry; form of imperfect competition

## Monopolistic Competition

- market structure having all conditions of pure competition except for identical products; form of imperfect competition

## Pure Competition –

independent buyers and  
sellers making informed  
decisions on products  
they wish to  
purchase and sell